Annual Report and Accounts 2009

LEADING THE EVOLUTION

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Key highlights 2009

Revenue

$274.7m

+20.4% **(2008: $228.2m)**

Adjusted EBITDA*

$118.6m

+34.0% **(2008: $88.5m)****

Adjusted operating profit*

$115.6m

+33.5% **(2008: $86.6m)**

Adjusted profit before tax*

$115.9m

+30.8% **(2008: $88.6m)**

Adjusted earnings per share*

41.51c

+29.4% **(2008: 32.08c)*****

Cash generated from continuing operations

$105.0m

+15.4% **(2008: $91.0m)**

* 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.

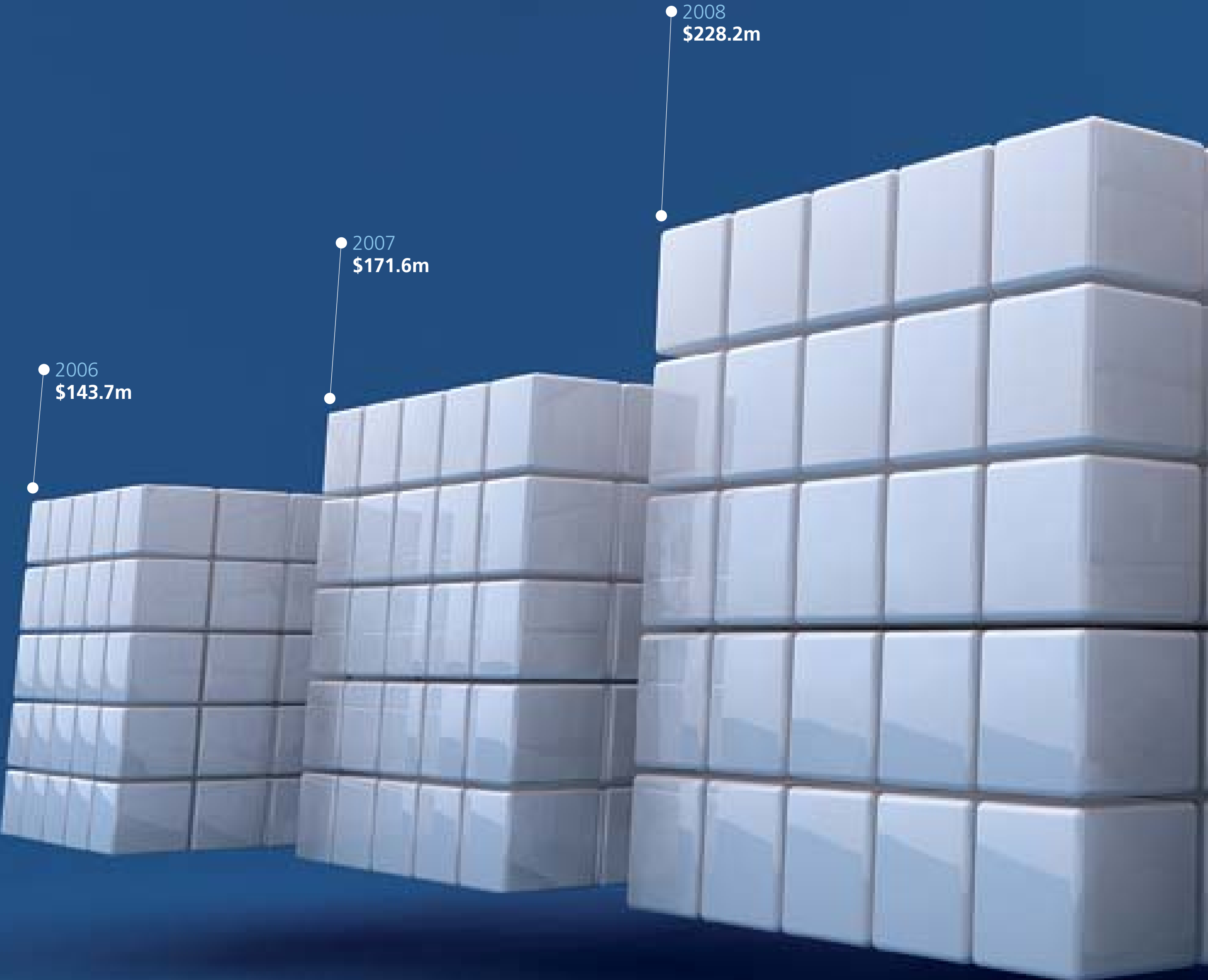
*** Earnings per share and Adjusted earnings per share are detailed in note 8.

MICRO FOCUS IS A GROWING, INTERNATIONAL SOFTWARE COMPANY DELIVERING SHAREHOLDER VALUE BY RESPONDING TO GROWING CUSTOMER DEMAND.

LEADING THE GLOBAL TREND TO APPLICATION MODERNIZATION, MICRO FOCUS SOLUTIONS RAPIDLY REDUCE COSTS AND IMPROVE PRODUCTIVITY.

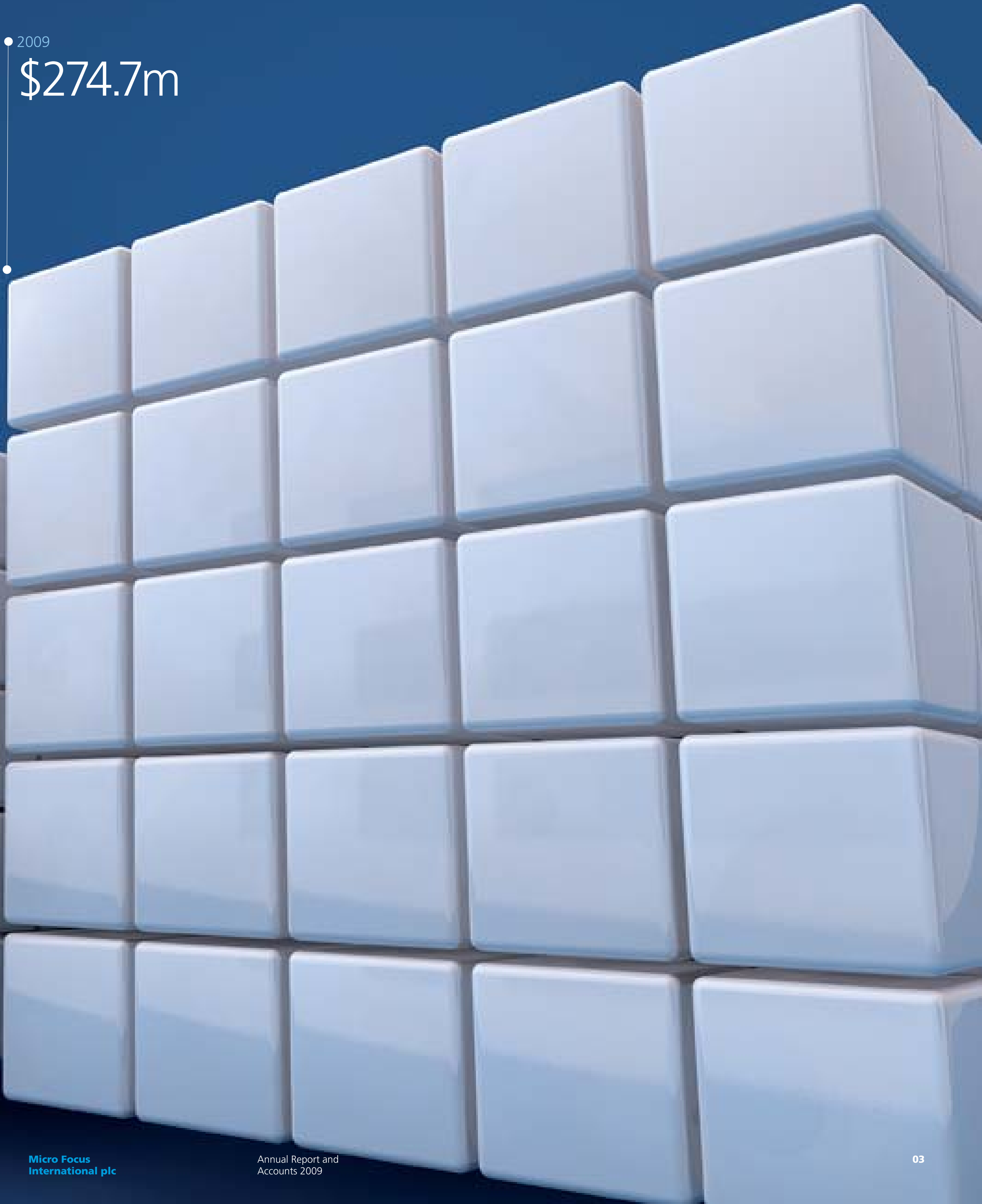
REVENUE GROWTH. FROM $228.2m TO $274.7m

Revenue comprises total revenues including the contribution of acquisitions and is compared with the prior year. Strong revenue growth is driven by solid demand for both licence and maintenance contracts, supplemented by revenues from rapidly integrated acquisitions.



2009

$274.7m



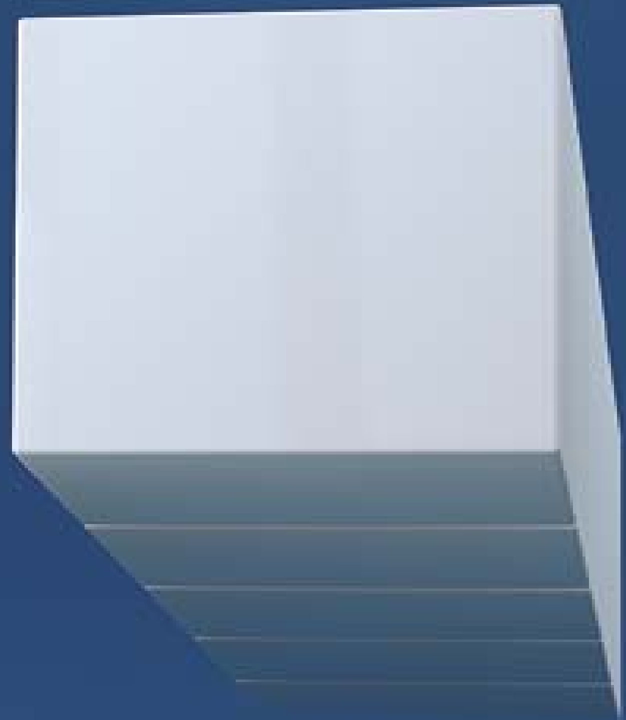
ADJUSTED EBITDA GROWTH. FROM $88.5m TO $118.6m

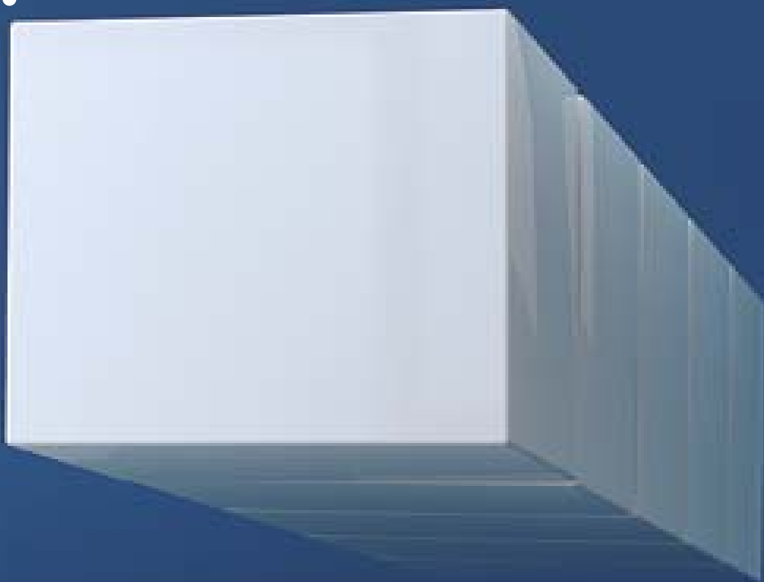
Adjusted EBITDA comprises earnings before interest, tax, depreciation and amortisation of intangible fixed assets, exceptional items and share based compensation charge. Improvements in adjusted EBITDA are a result of organic growth supplemented by acquisitions.

2009
$118.6m
2008
$88.5m

GROWTH IN CASH GENERATION. FROM $91.0m TO $105.0m

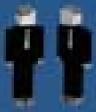
This measure is calculated using the cash flows generated from continuing operations – the Group is generating cash from its ongoing business which is being used to reinvest in the development of the Company including financing acquisitions, fund liabilities and pay dividends to shareholders.


2009
$105.0m


2008
$91.0m

OFFERING CUSTOMERS CHOICE, FLEXIBILITY AND FREEDOM FROM PROPRIETARY HARDWARE AND OPERATING SYSTEMS.

Customer roadmap
Micro Focus responds to business needs throughout the customer organisation:



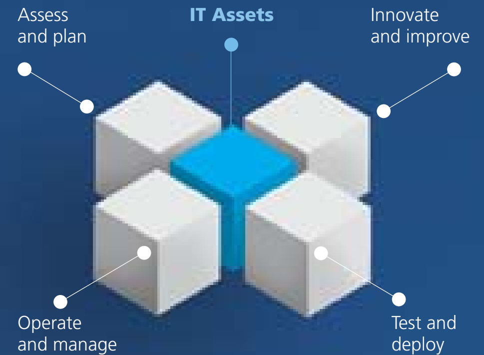
CFO/CIO
Deliver significant cost reduction and rapid return on investment, understand changing business needs and provide application management choices, improve time-to-market and increase business value.

Technical leaders
Provide solutions that increase productivity, enable product innovation and reduce delivery cycles.

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.

Continuous evolution and improvement
Application Management and Modernization.



Supporting customers' application requirements

Maintenance
Reassurance for the future, day-to-day support for application management and functionality, effective upgrades (approximately 90% renewal rates).

Licence
New application management and development licences, with the majority coming from existing customers.

Consulting
Experienced support to CIOs, providing effective assessment and business implementation advice.

Revenue split – year to 30 April 2009

The modernization trend
Increasing adoption levels by large corporations rejecting expensive, risky package or rewrite projects for business critical applications.

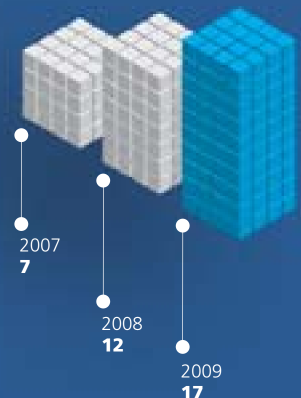
Micro Focus large contract wins
(more than $500,000 fee levels):

2009
17 transactions at an average sales price of $1.4 million for a total of c$24 million.

2008
12 transactions at an average sales price of $1.2 million for a total of c$14 million.

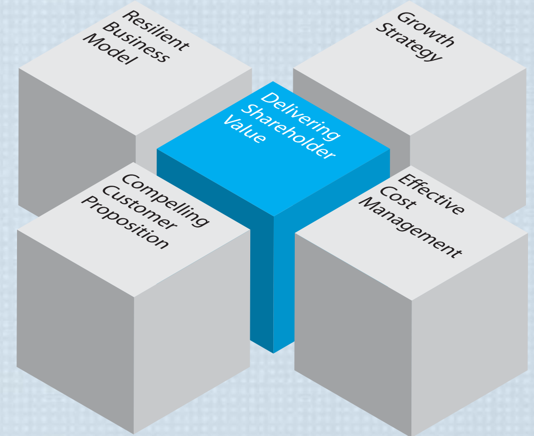
2007
7 transactions at an average sales price of $930,000 for a total of c$6.5 million.

Number of contract wins worth over $500,000



Kevin Loosemore
Chairman

WHAT WE DO TO DELIVER SHAREHOLDER VALUE



Micro Focus has delivered another year of strong financial results, achieving significant organic revenue growth and improving profit margins, in spite of tough economic conditions. We successfully integrated NetManage, Liant and Relativity, companies acquired in June 2008, July 2008 and December 2008 respectively.

While we remain conscious of the current challenging economic conditions, our long-term ambition remains to achieve significant growth in revenue and profits through both organic and acquired means.

The performance achieved over the past year continues to reflect well on the entire Micro Focus team and highlights the strong fundamentals of the business. We have first rate technology solutions, a loyal customer base and a leading position in a substantial, sustainable and growing marketplace. Market conditions for all companies are challenging but our revenue and EBITDA margin growth underlines the relevance of our customer proposition and the resilience of our business model.

The board continues to adopt a progressive dividend policy reflecting the long-term earnings and cash flow potential of Micro Focus and I am pleased to announce a proposed final dividend of 11.1 cents per share, giving a full year dividend of 15.6 cents per share. This represents a 20% increase when compared to a full year dividend of 13.0 cents last year and reflects the board's confidence in both the relevance of our solutions and the prospects of Micro Focus.

We finished the year with cash of $71.6 million, and generated $105.0 million of cash from continuing operations during the year. Our business model has low ongoing capital requirements and delivers strong cash generation. During the year, $78.6 million of cash was used to fund the acquisitions and restructuring of NetManage, Liant and Relativity. This figure comprises the purchase cost of $92.1 million, restructuring costs incurred of $14.9 million less cash acquired of $28.4 million.

Since the year end we have completed the acquisition of the Testing and Automated Software Quality ('ASQ') business of Compuware for a gross consideration of $80 million. In addition, we have announced the acquisition of Borland Software Corporation for a gross consideration of approximately $113 million. To fund our acquisition and integration plans we have put in place a three-year revolving credit facility of $215 million provided through a syndicated loan consortium comprising Barclays, HSBC, Lloyds and RBS.

As we build our Company to address new growth opportunities, we have added a significant number of employees to the business and I am pleased with their rapid integration, and the strong contribution they are making. The board would like to thank all of our employees for their continued hard work and commitment throughout the year. We continue to build for the future.

We remain focused on profitable revenue growth and I am confident in the Company's ability to continue to deliver value to all of its stakeholders. Through both dividend and capital growth we aim to deliver superior total shareholder returns.

We look forward to the year ahead with confidence.

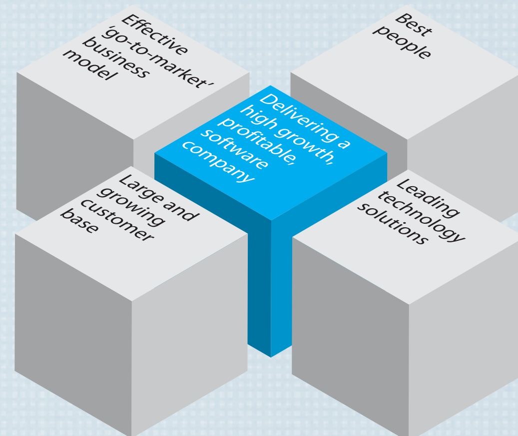
Kevin Loosemore
Chairman

Stephen Kelly
Chief Executive Officer

‘Given the synergies between application modernization and testing, IDC sees a key opportunity for Micro Focus to execute well in this targeted context.’

IDC, Micro Focus Augments Modernization Strategies With Borland and Compuware Acquisitions, May 2009

HOW WE DELIVERED GROWTH



Operational review
Over the past year, Micro Focus has generated strong growth in both revenues and profits.

Organisations of all sizes are increasingly considering and selecting an application modernization strategy to reduce business costs, reduce risk and improve productivity and innovation. They are achieving required business benefits by modernising existing IT applications, as opposed to implementing the lengthy, high risk and costly alternative of either rewriting these applications, or replacing them with a packaged solution with little additional business benefit. There is no other modernization player today that can offer the same level of experience and expertise to rapidly modernise and improve the functionality and cost effectiveness of business-critical enterprise applications.

Including the beneficial impacts of recent acquisitions, we now estimate our addressable market to be approximately $4 billion per annum. We have a significant opportunity ahead.

Execution
Over the past year, we delivered a strong set of financial results and made acquisitions to further our strategic aims. While driving growth through acquisitions, we have also remained fully focused on driving organic growth. It was pleasing to see the core Micro Focus business continue to deliver double digit organic revenue growth in the year, despite tough economic conditions.

On 18 June 2008, we acquired NetManage for $73.4 million in cash. On 11 July 2008, we acquired Liant Software Corporation for $4.9 million in cash and on 31 December 2008, we acquired Relativity Technologies, for $10.3 million in cash. All three acquisitions greatly strengthen our application modernization solutions. Since the year end we completed the acquisitions of Compuware's Testing/ASQ business and Borland.

All three acquisitions completed in the financial year have been integrated rapidly, drawing on our track record to acquire and bring acquisitions quickly into our own business model, with minimal disruption to our operations. Margins at these operations are in line with levels at the rest of the Micro Focus Group ('Group') for the period since acquisition. Combining the businesses of Micro Focus, NetManage, Liant and Relativity has further strengthened Micro Focus' position as a leading player in the fast growing Application Modernization market and provided the enlarged Group with further opportunities for growth through a more comprehensive and broader product portfolio.

We continue to invest in expanding our solution set as well as extending our partnerships with other technology companies, system integrators and outsourcers to take advantage of the considerable market opportunities. In particular, our deep relationships with HP/EDS, IBM, Microsoft and Oracle support further enhancement of our extensive product and solution portfolio. An important current development focus is our Enterprise Application Management offerings to benefit organisations embracing Cloud computing, to further improve cost efficiencies and productivity across their business operations.

Corporate developments
During 2009, the management team has been strengthened further to support our growth strategy. We have appointed new regional Presidents in North America, Asia Pacific and International to further sharpen our focus on sales execution. All individuals are highly experienced in the software industry and have all worked for international, high growth, successful companies.

The strengthened sales teams have driven continued improved performance in our North American operation as well as strong growth across our Europe and Rest of World operations. We have seen very strong growth in those markets where we have invested in direct operations to meet customer demand, for example in Spain, India and Latin America, where recent revenue growth has been particularly impressive.

Micro Focus has also continued to develop its marketing and communications strategies to increasingly establish senior level contacts within our target customer organisations. With well publicised 'failures' in package and rewrite IT projects, there is significant momentum building around the 'modernization message' and we have benefited from this rush to common sense as boards demand rapid returns on investment.

Growing our business around the world:

Asia
23% revenue growth in FY2009 across Singapore, Malaysia, Philippines, Hong Kong, China and Korea

India
Indian revenues grew by more than 250% in FY2009

'Mainframe rehosting solutions offer lower cost and more-immediate modernization results…'

Gartner, Inc. Mainframe Rehosting Products Offer Lower Risks by Dale Vecchio, 3 April 2009*

Business model

Micro Focus has demonstrated that it can grow and perform well in troubled economic times. In this respect, Micro Focus has become known as a 'safe haven'. I believe Micro Focus can perform both sides of the economic cycle. The relevance of our customer proposition and the resilience of our business model continue to encourage us that the outlook is positive. In recessionary times Micro Focus provides companies with a low risk option that enables existing annual costs to be reduced. In improved economic times, Micro Focus allows companies to achieve a significant increase in capacity, growth and innovation for a modest additional outlay.

Micro Focus benefits from having a business model with a high proportion of predictable and recurring revenue. Of licence revenues, which made up 47.6% of Group revenues in the year, the majority comes from high volume, low value transactions which are supplemented by larger value transactions. Approximately a quarter of licence revenues come from royalties from other software companies, which again consist of a high volume of lower value transactions.

Our resilient maintenance revenue streams continue to represent nearly half our total revenue, at 48.2%. This line of business experiences high levels of retention, and we continue to enjoy renewal rates of approximately 90%. Maintenance revenue growth is driven by the retention of existing customers as well as the addition of new maintenance revenue associated with the sale of new licences. An encouraging performance in both of these areas in the year provides high levels of revenue visibility going forward.

The smallest proportion of our revenue is derived from our consultancy services and it is expected that this revenue will remain a similar proportion of total revenue in the coming year.

Continued future revenue growth is largely dependent on driving licence sales. Our major growth opportunity remains around larger value licence fee transactions into the Global 2000 companies. It was encouraging that we again signed a number of these transactions in the year carrying on from our success last year. These larger value transactions in turn drive future growth of our run rate high volume and low value business, typically through deployment revenues as modernised applications are rolled out across organisations.

Summary and outlook

Our solutions reduce cost, lower risk, and provide clear and compelling returns on investment for our customers. While we recognise the continuing uncertain macro economic conditions, the defensive characteristics of our business model, combined with the relevance and compelling nature of our solutions, lead us to view the current year with confidence.

In the year ahead, we will continue to pursue our successful growth strategy. However, as stated the impact of the recent Compuware and Borland acquisitions are expected to reduce the overall Group margin.

Micro Focus' resilience, relevance and strong cash generation gives the board confidence in the Group's ability to continue to deliver superior total shareholder returns.

Stephen Kelly
Chief Executive Officer

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InfoExplorer, a leading IT services provider in Taiwan

• InfoExplorer worked with Micro Focus and DTC Cortex to build a high-quality core banking application package for the Taiwanese and Chinese markets.

• The InfoExplorer system, known as TPE, encompassed a broad spectrum of banking functionality, providing high-speed, real-time transaction processing and full branch banking facilities.

• Using the high-performance Micro Focus run-time environment, it is capable of executing one million transactions per day and is designed for continuous 24 hours a day, seven days a week operation.

• The system consists of over 200,000 lines of code and can work with a variety of major databases, such as Oracle, Informix or DB2, and can be deployed on IBM AIX, Sun Solaris, HP/UX and Redhat Linux platforms, to maximize customer choice.

• The system has improved operational performance, enabled more agile responsiveness to new business demands and reduced costs. The reduction in labour costs by speeding up business processes and eliminating overtime has saved $1.5 million for one customer alone.

'Micro Focus state-of-the-art development tools have enabled our customers to make substantial savings through increased productivity and to greatly improve the quality of the services they provide to their clients. We chose Micro Focus software tools because our development staff were already familiar with Micro Focus COBOL, and the stability and reliability of the technology was proven'.

Yeun-Chung Tan, director, Marketing and International Business Division, Business Development Department, InfoExplorer Co Ltd.

Isle of Man Government

• Modernization from an ageing mainframe, reducing maintenance costs by £1.5 million.

• These major savings allow the customer to free-up resource to deliver more services in other areas for the citizens of the Isle of Man.

• Large and complex mainframe applications moved to new platforms without impacting critical government services.

• Positive return on investment (ROI) expected in less than 12 months.

• Only five developer years of effort needed to complete the migration, vs estimated five to ten years required to rewrite just one mainframe application.

'Advanced development tools from Micro Focus enabled us to migrate our critical COBOL applications from the mainframe to our strategic platform rapidly, in a highly cost-effective manner and without impacting the quality of our services'.

Allan Paterson, director of Isle of Man's Information Systems Division

Spain
200% growth in licence revenues vs FY2008

Italy
36% growth in total revenues, nearly 350% increase in last four years

France
32% growth in total revenues vs FY2008

Group risk factors

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

The following are the key risks that are relevant to the Group as a provider of enterprise application management solutions. Please also refer to the section on internal controls within the corporate governance report on page 40.

Employees

The retention and recruitment of highly skilled and motivated employees is critical to the success and future growth of the Group in all countries in which it currently operates and in which it is likely to expand into in the future.

The Group has policies in place to help achieve these objectives and ensure that it is able to attract and retain employees with the required skills.

Timing of concluding contracts

In common with other software companies, the recognition of revenue is dependent upon obtaining signed contracts from customers and delivery of product. With a high proportion of costs being fixed, mainly people related, failure to conclude sales contracts could result in a material decrease in margin. Failure to conclude at any time would have the same impact.

However, the Group has a growing diverse mix of customers with a high proportion of predictable and recurring revenue which reduces this exposure.

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. 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 a successful track record to-date in integrating acquisitions into the Group's business model and has strengthened its management team to assist in this process. It has also secured a three-year revolving $215 million loan facility agreement to fund announced acquisitions and associated integration costs.

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. The loan facility agreement contains covenants which may negatively impact the ability of the Group to operate and grow its business. To the extent drawn down, the loan facility agreement will create an amount of indebtedness for the Group together with debt service obligations which may impair the operational and financial flexibility of the Group.

The directors believe that the strength of the business means that any 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.

Research and development

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

The successful integration of the R&D functions of acquired companies together with the effective management of existing facilities is key to mitigating these risks.

UK
20% revenue growth in licence fees versus FY2008

Japan
Japan grew revenues for the eighth consecutive year in FY2009

North America
1,900 financial services customers, including 60 of the top 100 corporations

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

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

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. 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 on both sides of the 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.

Intellectual property
The Group depends on its intellectual property, and rights to such intellectual property may be challenged or infringed by others or otherwise prove insufficient to protect its business. The Group relies on trade secret, trademark and copyright law to protect its intellectual property. Failure to protect, maintain and enforce the Group's existing intellectual property or pursue registrations for new rights may result in the loss of the Group's exclusive right to use technologies which are included in their respective software products or are otherwise used in their respective businesses.

Most of the Group's intellectual property is not covered by a patent or patent application and includes trade secrets and other know-how that is not considered patentable. In addition, 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.

The Group takes appropriate steps to enforce its intellectual property rights particularly in international markets including litigation where appropriate.

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

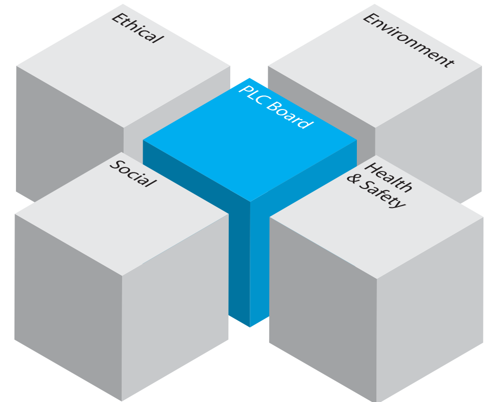
Corporate and social responsibility

The board is committed to running the Company in accordance with best practice in corporate governance. This commitment includes recognition by the Company of the importance of taking into account its corporate social responsibilities ('CSR') in operating the business. In this context, Micro Focus seeks to integrate CSR considerations relating particularly to social, ethical and health, safety and environment ('HS&E') issues in its day-to-day operations. The board acknowledges its duty to ensure the Company conducts its activities responsibly and with proper regard for all its stakeholders including employees, shareholders, business partners, suppliers and the local communities. The Company is a member company of the FTSE4Good Index Series. This index identifies companies that meet globally recognised corporate responsibility standards.

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

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

Our CSR focus



FTSE4Good

Social

The health, welfare and development of the Company's employees are a priority. With the intent of attracting, recruiting, developing and retaining key employees, Micro Focus maintains a number of policies and procedures for the benefit of its employees, for example an equal opportunities policy approved by ACAS. Employee development is encouraged through appropriate training. Regular and open communication between management and employees is viewed as essential for motivating a highly educated workforce. Briefings are held regularly to provide updates on Company business and to provide opportunity for questions and feedback. Review meetings are also held regularly within each department. The Company maintains both an Internet website which is freely accessible and an Intranet site accessible to all employees. During the year, two additional Sharesave plans and US ESPP plans were introduced and the directors actively encourage employee equity participation, subject to compliance with the Group's share dealing policy. Details of the current employee share option schemes and options granted during the year are given in note 23.

The Company plays an active part in its local communities, participating in charitable initiatives and local community support projects. Two recent examples took place in Bulgaria and Italy. In Shiroka Laka, Bulgaria, the Micro Focus team supported an orphanage by building a fully functional computer room and conducted training sessions for the children. In Italy, the Company has donated office furniture to schools and public offices in the earthquake areas of Abruzzo, Aquila and the surrounding communities to effectively contribute to the rebuilding of this unfortunate area.

Ethical

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

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

Health and safety

The Company has well-developed health and safety policies and procedures, safeguarding staff, contractors and visitors in compliance with applicable legislation and best practice.

Environment

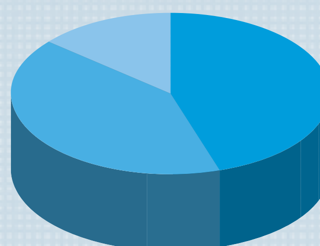
Micro Focus complies with applicable environmental legislation. The directors acknowledge that the Company's business as a provider of enterprise application management solutions has a minimal direct impact on the environment but there are areas in which the Company does have an impact on the environment.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

Nick Bray
Chief Financial Officer

HOW WE HAVE PERFORMED

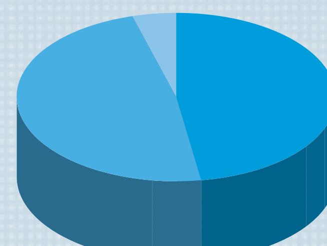
Revenue

By geographic region 2009 $ million



North America **124.0**
Europe and Middle East **113.1**
Rest of World **37.6**

By category $ million



Licence Fees **130.8**
Maintenance Fees **132.3**
Consulting Fees **11.6**

Revenue for the year increased by 20.4% to $274.7 million, adjusted operating profit increased by 33.5% to $115.6 million, adjusted profit before tax increased by 30.8% to $115.9 million and adjusted earnings per share increased by 29.4% to 41.51 cents per share.

In the report below we have provided detail of total revenue at actual exchange rates by both geography and revenue category. In addition, to facilitate comparison on a like-for-like basis we have also shown the impact of exchange rate movements on revenue and the impact of acquisitions. Acquisitions before 30 April 2008 include HAL Knowledge Solutions and Acucorp and after 1 May 2008, NetManage, Liant and Relativity.

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

	2009		2008	
	$m	%	$m	%
North America	**124.0**	**45.1**	96.5	42.3
Europe and the Middle East	**113.1**	**41.2**	96.0	42.1
Rest of the World	**37.6**	**13.7**	35.7	15.6
Total revenue	**274.7**	**100.0**	228.2	100.0

Excluding the impact of exchange rate movements on revenue and the impact of current and prior year acquisitions, all geographic regions achieved solid organic growth as shown in the table below. The core Micro Focus organic revenue growth at constant currency was 10.1%.

Revenues from acquisitions added $57.2 million of revenue in the year. $25.5 million was generated from acquisitions completed in prior years and $31.7 million from current year acquisitions.

We have been encouraged by the growth in new direct territories including Spain, India and Central and Eastern Europe, which assisted in helping our Europe and the Middle East geography increase by 13.7%.

	2009 $m	2008 $m	Growth %
North America	**92.2**	85.5	7.8
Europe and the Middle East	**89.8**	79.0	13.7
Rest of the World	**35.5**	33.0	7.6
Core Micro Focus	**217.5**	197.5	10.1
Acquisitions before 30 April 2008	**25.5**	25.4	–
	243.0	222.9	–
Acquisitions after 1 May 2008	**31.7**	–	–
Total revenue growth pre-currency impact	**274.7**	222.9	23.3
Currency	–	5.3	–
Total reported revenue	**274.7**	228.2	20.4

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 50%, including the benefit of acquisitions.

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

	2009		2008	
	$m	%	$m	%
Licence fees	**130.8**	**47.6**	113.3	49.6
Maintenance fees	**132.3**	**48.2**	104.2	45.7
Consultancy fees	**11.6**	**4.2**	10.7	4.7
Total revenue	**274.7**	**100.0**	228.2	100.0

As detailed below, licence and maintenance growth in the core Micro Focus business was 9.7% and 11.9% respectively. Consulting revenues reduced by c.5%.

	2009 $m	2008 $m	Growth %
Licence	**108.6**	99.0	9.7
Maintenance	**101.5**	90.7	11.9
Consulting	**7.4**	7.8	(5.1)
Core Micro Focus	**217.5**	197.5	10.1
Acquisitions before 30 April 2008	**25.5**	25.4	–
	243.0	222.9	–
Acquisitions after 1 May 2008	**31.7**	–	–
Total revenue growth pre-currency impact	**274.7**	222.9	23.3
Currency	**–**	5.3	–
Total reported revenue	**274.7**	228.2	20.4

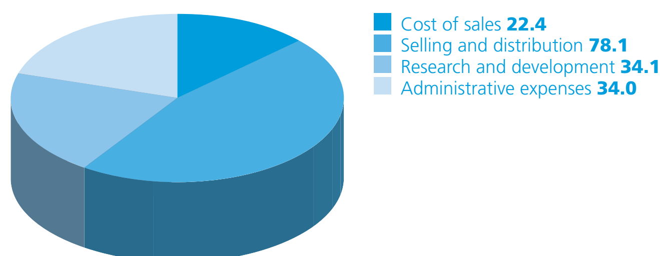
Organic licence fee revenue growth from the core business at constant currency was driven by our low value, high volume run rate business combined with improved sales of larger value transactions to enterprise customers. We define larger value transactions as those in excess of $0.5 million. It is encouraging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

Organic maintenance revenue growth from the core business at constant currency was 11.9% reflecting the impact of solid licence fee sales combined with inflationary price increases and an improvement in the renewal rate as compared to the prior period.

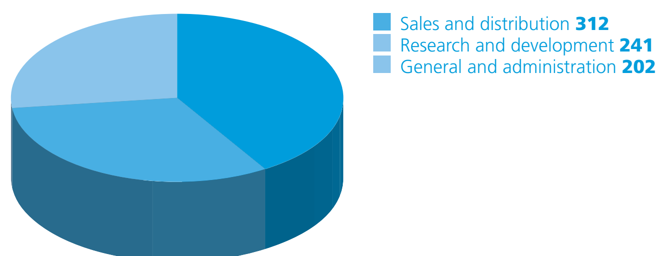
Organic consulting revenue growth at constant currency showed a small decline against the prior year although the growth rate improved in the second half year as compared to the first half year.

The acquisitions made in the year comprising, NetManage, Liant and Relativity added $31.7 million of revenues in the year.

Cost breakdown (pre-exceptionals) 2009 $ million



Average monthly number of employees



+11.9%

Organic revenue maintenance growth

$71.6m

Cash balance at 30 April 2009

Costs

All comments below relate to costs at actual reported $.

Cost of sales for the year fell by 1% to $22.4 million. The costs in this category predominantly relate to our consulting and helpline support operations.

Selling and distribution costs increased by 23.6% to $78.1 million. We continue to make significant investments in the sales and marketing functions to support growth and will continue to do so. This cost category represents approximately 27% of revenue and is expected to remain at a similar percentage of revenue for the year ahead.

Research and development expenses increased by 15.7% to $34.1 million. We expect to maintain this cost category at a similar percentage of total revenue as we continue to enhance and expand our solution set to take advantage of the considerable market opportunity.

Excluding restructuring charges of $14.9 million (2008: $6.5 million), administrative expenses increased by 7.5% to $34.0 million. The increase in costs includes costs of the acquired businesses as well as expanding the Group's support functions to facilitate current and future growth. 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 $ and other currencies is shown below. As the Euro and Sterling have weakened against the $ 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 $ denominated currencies than revenues, our expenses have decreased proportionately faster than revenues. As a result, adjusted operating profit as reported in $ was not materially different pre-or post-currency adjustments.

	Revenue analysis by major currency %	Cost analysis by major currency %
US$	51.4	32.5
Other	48.6	67.5
Total	**100.0**	**100.0**

Operating profit

Operating profit for the year was $91.2 million (2008: $74.8 million). Adjusted operating profit increased by 34% to $115.6 million (2008: $86.6 million), the improvement being driven by increased revenue and an improvement in margins.

Adjusted EBITDA

Adjusted EBITDA increased by 34% to $118.6 million (2008: $88.5 million) as a result of increased revenue and tightly controlled costs.

Net finance income

Net finance income was significantly lower than for the previous year at $0.2 million (2008: $2.0 million) due to lower average cash balances and lower interest rates. Cash balances were reduced by $78.6 million as a result of the purchases of NetManage, Liant and Relativity and associated restructuring charges. We also incurred facility fees of $0.7 million on the unused bank facility.

Taxation

Tax for the year was $25.4 million (2008: $21.4 million) based on increased profits. The Group's effective tax rate is 27.8% (2008: 27.9%). Our medium-term effective tax rate is expected to be maintained at approximately 28%.

Profit after tax

Profit after tax increased by 19% to $66.0 million (2008: $55.4 million), similar to the growth in revenues.

Cash flow

At 30 April 2009, the Company's cash balance was $71.6 million (2008: $92.4 million). The Group generated a net cash inflow from continuing operating activities of $105.0 million which was offset by outflows of $78.6 million in respect of the acquisition and restructuring of NetManage, Liant and Relativity as well as corporation tax payments of $20.0 million and dividends of $26.1 million.

Dividend

The board continues to adopt a progressive dividend policy reflecting the long-term earnings and cash flow potential of Micro Focus with a level of dividend cover for the financial year ending 30 April 2009 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 2009 of 11.1 cents per share providing for total dividends in the year of 15.6 cents per share, an increase of 20% over the total dividends of 13.0 cents per share for the full year to 30 April 2008. The dividend will be paid on 28 September 2009 to shareholders on the register on 4 September 2009. The directors of Micro Focus International plc have concluded that the Company has sufficient reserves to enable the payment of the final dividend.

Dividends will be paid in sterling based on an exchange rate of £1 = $1.65, equivalent to 6.73 pence per share, being the rate applicable on 24 June 2009, the date of recommendation of the dividend by the board.

Acquisitions made in the year

During the year, we made three acquisitions, NetManage in June, Liant in July and Relativity in December. These three acquisitions added $31.7 million of revenues to the current year results at a margin broadly similar to that of the total Group. Revenues for the year ahead are expected to increase in regard to acquisitions as we see the benefit of a full 12 months of results.

Acquisitions made post-period end

On 29 May 2009, we closed the acquisition of Compuware's Testing and ASQ business. The gross purchase price was $80 million.

On 27 July 2009, we closed the acquisition of the Borland Software Corporation for a gross purchase price of approximately $113 million.

To finance these acquisitions, we have arranged a three-year revolving credit facility of $215 million through a syndicated loan consortium comprising Barclays, HSBC, Lloyds and RBS. This facility together with the Group's existing cash balances will be used to fund the completed acquisitions and subsequent integration activities.

Nick Bray
Chief Financial Officer

LEADING WITH OUR PEOPLE.

26 Getting close to our customers
28 Building the brand
31 Modernization leadership

Marc Andrews
President

Getting close to our customers – our time is now

Micro Focus has a very high sales conversion rate. On average, we win double the software industry benchmark of customer leads.

That tells me we have the compelling business solutions for today's organisational challenges. But looking forward it means we must move fast to maximise our advantage. We need to get in front of as many opportunities as possible. But we need to do so with the right people with the right intelligent conversations.

We have already strengthened our 'go to market' sales and marketing organisation and will continue to do so.

• Our senior management team has been further strengthened with new leaders in our three regional hubs – North America, Asia Pacific and EMEA & Latin America – and we have hired a number of new country managers in strategic markets.

• We have expanded our sales force from 100 to 152 customer facing staff in FY2009 to support and further fuel our growth strategy and meet increasing levels of customer demand.

• We have identified high growth markets and invested in direct sales teams to accelerate revenue growth in these regions. Our performance in Spain and India in the last 12 months is vindication of this strategy. We will continue to invest in additional high growth markets in 2010, with a focus on Asia Pacific and Latin America over the coming months.

• Our comprehensive training and development has been instrumental in driving our high sales conversion rate and growing our penetration of large customer accounts where our customer contact is increasingly with senior IT decision makers.

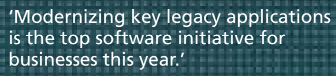
• Our marketing and communications programmes will continue to feed off a wave of market sentiment to recognise, understand and learn more about the business logic of application modernization.

These programmes are generating a better and better quantity and quality of leads as our prospects step away from expensive, lengthy and risky package or rewrite IT strategies.

• We have put in place robust programmes to track leads through five key phases before contracts are signed. And our detailed pipeline management will continue to provide a comprehensive dashboard for the future health and direction of our Company, tracking business on a weekly, monthly, and quarterly basis.

Our sales performance has been strong in FY2009, but there is much to do in the coming months as we further strengthen our existing application management and modernization proposition with an exciting testing offering. This is our time to act decisively, grasp the opportunity to win business and deliver on our growth strategy.

Marc Andrews
President



‘Modernizing key legacy applications is the top software initiative for businesses this year.’

Forrester Research Press Release: Top Corporate Software Priority Is Modernizing Legacy Applications, 8 June 2009

Sally Hanson
Global Marketing Communications Director

Building the brand – reaching more customers

Awareness of the Micro Focus brand is growing. As our target market increasingly recognises the compelling nature of our proposition, we are tapping into a momentum that further drives the effectiveness of our marketing programmes. We are knocking on an open door – we need to step boldly through it.

Micro Focus' customer proposition is wholly aligned with the business imperatives of our customers. We are preaching to a fully engaged audience. Cost reduction, improved productivity, enhanced innovation, fast returns on investment and low risk solutions are all messages that get attention in today's market. And these requirements will stay true as we look to the future. Gone are the days of expensive and risky IT transformations, here are the days of pragmatism and recognising the power and value of existing IT assets.

We will continue to connect with our prospects and customers in ways they want to be reached. This varies by geography, industry sector, job title and size of organisation. Our market segmentation is driving powerful market intelligence that is further improving the effectiveness of our marketing communications programmes. And our growing number of satisfied customers, large and small, is acting as an impressive proof point for the business logic of application modernization.

A structured and targeted programme of events, online communications, telemarketing, direct mail and a range of other tactics are carefully measured and adapted to suit customer types and cultural differences. Local marketing teams deliver local programmes from corporately developed campaigns that ensure consistency of message and which are constructed with detailed customer and product feedback.

Our robust and growing network of global business partners continue to supplement our direct marketing programmes and Micro Focus will further develop these joint marketing initiatives going forward.

Our integrated marketing activities will continue to meet our twin objectives of generating sales leads and building brand awareness, with constant evaluation of results.

Micro Focus has a committed focus on strong corporate communications – building a corporate brand is a long-term objective and is most effectively achieved through a mix of marketing activities, but effective PR and regular interaction with industry analysts can dramatically boost brand-building programmes. We will continue to be heard more loudly, more often, and by more of the right people in the coming months and years. Our public relations programme will continue to generate significant press coverage and our bold messaging and thought leadership will drive greater participation in industry debate. Business leaders and senior IT executives will increasingly know Micro Focus and understand the benefits of our customer offerings.

The technology sector has every opportunity to be at the forefront of economic recovery, delivering value, prosperity and jobs. Micro Focus will be known as a key player in this recovery, as we help more and more customers to meet their business challenges.

Sally Hanson
Global Marketing Communications Director

Neil Fowler
Director, Product Development

‘The capabilities Micro Focus provides will actually increase the reliability and scalability of apps running in the Cloud’.

Forrester analyst Mike Gilpin in the eWeek article, Taking COBOL to the Cloud, November 2008

Modernization leadership – taking COBOL into the Cloud

The economy is forcing our hand, making us ask the tough questions of IT. The willingness to sink millions of dollars into resource-hungry rewrite projects or packaged applications that promise nothing for three years has gone, and companies are realising the biggest asset they have is their enterprise application portfolio, and they have started to act.

Back in early 2008, industry analyst firm Gartner urged companies to take a strategic approach to their IT modernization. Over a year later, in June 2009, Forrester Research has described modernization as ‘hot’, with 64% of firms in a recent survey saying that updating and modernising key legacy apps is important or very important. The momentum is building.

Protecting your investment

Each and every one of the applications running inside the company today must be planned for, and decisions made over its fate. Should we continue to invest? And, if so, are there steps we can take to reduce that investment, such as moving the application to a lower cost platform? Do we have the skills in place to support that investment or the tools our people need to work effectively?

Equipping the organisation to make these decisions, and then be in a position to act upon them in a cost-efficient way, has made its way to the top of the priority list, and Micro Focus is supporting IT on every step of that journey.

Growth through innovation

New investment in IT must now come from releasing budget from elsewhere. Platform modernization is helping organisations do this today, releasing millions of dollars in non-discretionary spend. One US logistics company recently slashed $6 million from the annual running costs of its core product tracking system by shifting the platform from z/OS to zLinux; same application, same business process, but suddenly a lot more budget available to drive innovation.

Supporting the innovation agenda, Micro Focus is helping companies unlock their ‘crown jewels’, extending business value through service-enablement, Web 2.0 integration and deployment on whichever platform best suits the needs of the business. By ‘freeing up’ business critical applications from expensive and proprietary machine types and operating systems, CIOs are regaining choice and flexibility to manage their IT assets effectively for current and future business needs.

COBOL meets Cloud

Cloud computing represents a natural evolution for IT, enabling rapid time to market, with new applications available in a fraction of the time it takes to build even the most commoditised on-premise infrastructure, with capital costs shifting toward operational expenditure.

Forrester Research has identified Micro Focus as one of the only vendors focused on taking existing enterprise applications into the Cloud. And when you consider the huge, global footprint those applications represent, with COBOL alone standing in excess of 200 billion lines of code, supporting some 30 billion transactions per day or 80% of the world’s enterprise transactions, the impact of moving even a fraction of this workload to more cost-effective platforms is massive – for IT and Micro Focus.

Neil Fowler
Director, Product Development

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04.

02.

05.

03.

06.

01. Kevin Loosemore, 50
(Non-executive Chairman) †‡
Kevin is non-executive Chairman of Morse Plc, director of Farnham Castle and 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. Stephen Kelly, 47
(Executive director and Chief Executive Officer)‡
Stephen served as Chief Executive Officer of Chordiant Software Inc. (NASDAQ public company) from January 2002 until February 2006. He served as Chordiant's President and Chief Operating Officer from October 2000 through January 2002, and as Senior Vice President of Chordiant Software International Limited's operations from October 1998 to October 2000. Prior to this, he spent almost ten years in a number of senior management positions with the Oracle Group. He is a non-executive director of Cúram Software Limited. Stephen received his BSc with honours in business administration from the University of Bath.

03. Nick Bray, 44
(Executive director and Chief Financial Officer)
Nick was previously Group Finance Director of Fibernet Group plc, having joined that company in February 2001. Before that, he held the positions of Group Chief Financial Officer of Gentia Software plc and Chief Accounting Officer of Comshare Inc. He started his career at Price Waterhouse where he qualified as a chartered accountant. Nick has a first class honours degree in civil engineering from Aston University.

04. David Maloney, 53
(Non-executive director) *†‡
David is Chairman of Hoseasons Holdings Ltd and a non-executive director of Ludorum plc, Cineworld Group plc, Carillion plc and Enterprise Inns plc. He is also Chairman of the Board of Trustees of Make-a-Wish Foundation (UK) Limited. 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.

05. Paul Pester, 45
(Non-executive director) *†
Paul is currently Managing Director at Banco Santander 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 and Chairman of the Travellers Cheque Association. Paul holds a first class honours degree in physics from Manchester University and a doctorate in mathematical physics from Oxford University.

06. Tom Skelton, 48
(Non-executive director) *†
Tom is a founding member of Confluence Medical Systems, a healthcare and technology consulting partnership. In his most recent executive role, he served as Chief Executive Officer for Misys Healthcare Systems from January 2002 until March 2007 and as a director of Misys plc. Prior to that, he was Chief Executive Officer 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.

* Audit committee
† Remuneration committee
‡ Nomination committee

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 2009.

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 12 to 14, the finance review on pages 20 to 24 which include details of the Group's activity and the future development of the Group, the risk factors set out on pages 17 to 18, and the key performance indicators ('KPIs') on page 48 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 2009 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 2009 of 11.1 cents per share, which, taken together with the interim dividend of 4.5 cents per share paid in January 2009, gives a total dividend in respect of 2009 of 15.6 cents per share. Subject to shareholder approval, the final dividend will be paid on 28 September 2009 to shareholders on the register on 4 September 2009. Dividends will be paid in Sterling based on an exchange rate of £1 = $1.65, equivalent to approximately 6.73 pence per share, being the rate applicable on 24 June 2009, the date of recommendation of the dividend by the board.

Research and development
The Group expensed $34.1 million relating to research and development during the year to 30 April 2009 (2008: $29.5 million). In addition, the Group capitalised $7.7 million of qualifying expenditure (2008: $5.4 million). This expenditure was incurred in improving the quality, functionality and extending the range of the Group's innovative software solutions.

Donations
The Company's policy is to make no donations to political parties (2008: nil). During the year, the Group made charitable donations of $27,000 to a number of local and national charities and other local organisations (2008: $31,000). This included £8,800 to Castle Special School, Newbury and £3,600 to Action for Children. 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
The Company announced on 6 May 2009, that it had reached agreement on a recommended cash offer of $1.00 per share for the entire issued and outstanding share capital of Borland Software Corporation, ('Borland'), the NASDAQ-listed software provider. On 18 June 2009, the Company announced that the offer had been increased to $1.15 per share and on 1 July 2009, the offer was increased to $1.50 per share. The transaction was completed on 27 July 2009 after receiving approval from the shareholders of the Company and Borland. The total gross consideration was approximately $113 million.

The Company announced on 6 May 2009, that it had reached agreement to acquire the suite of Application Testing/Automated Software Quality (ASQ) solutions and all related sales, support and development infrastructure (together being the Compuware Testing and ASQ Business) from Compuware Corporation ('Compuware') for a total gross cash consideration of $80.0 million. The transaction was completed on 29 May 2009.

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 the acquisitions above and for general corporate purposes. On 12 June 2009, this facility was subsequently increased to $215 million.

Directors and their interests
The directors of the Company who served during the year are as follows:

Executive	
Stephen Kelly	
Nick Bray	
Non-executive	
Kevin Loosemore	(Chairman)
Prescott Ashe	(resigned 8 September 2008)
David Dominik	(resigned 18 February 2009)
David Maloney	
Paul Pester	
Tom Skelton	

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 42 to 47.

None of the directors had a material interest in any contract of significance to which the parent company or a subsidiary was a party during the financial year, except as disclosed in note 28, 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.

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

Employment policy

Equal opportunities

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

Disabled employees

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

Employee involvement

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

Further education and training

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

Share option schemes

The directors remain committed to the principle that selected employees should be able to participate in the Group's progress through share based compensation schemes. Details of the Group's share based compensation schemes are given in note 23.

Payment of creditors

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

The Group seeks the best possible terms from suppliers appropriate to their business and in placing orders gives consideration to quality, delivery, price and terms of payment. The Group does not follow a specific payment code but has a policy to pay its suppliers in accordance with the specific terms agreed with each supplier. The average number of days' purchases outstanding at 30 April 2009 for the Group was 28 days (2008: 28 days).

Financial instruments

The exposure of the Group to financial risks, including the use of financial instruments and policies for hedging and the exposure to price, credit, cash flow and liquidity risk, can be found in note 18 to the financial statements.

Substantial shareholding

In accordance with the Disclosure and Transparency Rules of the Financial Services Authority, at 31 July 2009, 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
Standard Life Investments Limited	22,023,644	10.92%
Majedie Asset Management Limited	16,330,461	8.17%
BlackRock, Inc	12,863,784	6.36%
GAM International Management Limited	11,717,270	5.84%
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%

Additional information for shareholders

Following the implementation of the EU Takeover Directive into UK law, the following description provides the required information for shareholders where not already provided elsewhere in this report. This summary is based on the Company's Articles of Association ('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 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 24 September 2009 are set out in the Notice of Meeting which accompanies this report.

Dividends and distributions

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

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

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

Transfer of shares
Subject to the 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 rules (as defined in the CREST Regulations), and apart from any class of wholly dematerialised security, the board may permit any class of shares in the Company to be held in uncertificated form and, subject to the 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 25 September 2008) to buy back up to 20,056,391 ordinary shares, which remains outstanding until the conclusion of the next AGM on 24 September 2009. 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. The board may from time to time appoint one or more directors to hold employment or executive office for such period (subject to the Companies Acts) and on such terms as they may determine and may revoke or terminate any such employment.

The Company may by 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 Acts and any ordinary resolution of the Company.

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

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

On 13 May 2008 the Company entered into a $40 million credit facility with HSBC Bank Plc and Lloyds TSB Bank plc for general corporate purposes. On a change of control, the bankers may give not less than five days notice to the Company and cancel the facility and require repayment of any outstanding loans and interest. The facility expired on 12 May 2009.

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 the 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.

Branch
The Group continues to operate overseas branches in Hong Kong and Sweden. During the year it opened branches in Portugal, Denmark, Finland and Mexico.

Annual General Meeting ('AGM')
The notice convening the AGM of the Company together with the explanatory notes on the proposed resolutions accompanies this report. The meeting will be held at The Lawn, 22-30 Old Bath Road, Newbury, Berkshire RG14 1QN on 24 September 2009 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
12 August 2009

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 2006 ('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 few limited exceptions as described below, believes the Group has fully complied with the Combined Code during the year reported on. Where it has not, an explanation has been provided.

Compliance statement

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

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.3.2 – board of directors – The Combined Code requires that at least half the board, excluding the Chairman, should comprise non-executive directors determined by the board to be independent. Following the resignation of non-executive director Prescott Ashe, who was not regarded as independent on 8 September 2008, the Company is now in compliance. David Dominik, who was also not regarded as independent, resigned on 18 February 2009.

A.4.1 – nomination committee – The Combined Code requires that a majority of members of the nomination committee should be independent non-executive directors. The nomination committee comprises the Chairman, David Maloney (non-executive senior independent director) and Stephen Kelly (executive director). 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 42 to 49) the following section sets out how the board has applied these principles.

The board

The Group is controlled by the board, which is responsible for the Group's system of corporate governance. As at 30 April 2009, the board comprised six directors:

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

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 and Tom Skelton, non-executive directors, 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. Kevin Loosemore, Stephen Kelly and Nick Bray will retire by rotation at the forthcoming AGM and, being eligible will stand for re-election. The non-executive directors are appointed for specific terms. Full terms of their appointment are to be found in the remuneration report.

The board has agreed procedures for directors to follow if they believe they require independent professional advice in the furtherance of their duties and these procedures allow the directors to take such advice at the Company's expense. In addition, all the directors have direct access to the advice and services of the Company Secretary. The Company Secretary is accountable to the board through the Chairman on governance matters. It is the responsibility of the Company Secretary to ensure that board procedures are followed and all rules and regulations are complied with. Under the direction of the Chairman, the Company Secretary's responsibilities include facilitating induction and professional development and ensuring the smooth flow of information within the board and its committees, and between non-executive directors and senior management. Any new director receives a comprehensive, formal and tailored induction into the Company's operations. Appropriate training is provided to new directors and is also available to other directors as required.

The terms of reference of the Chairman and Chief Executive Officer have been agreed with the board and, in accordance with best practice, their roles remain separate.

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

In the year to 30 April 2010, the board will schedule meetings on a regular basis approximately every two months, with additional meetings when circumstances and business dictate. In months in which the board does not meet update calls are scheduled to review progress. A schedule of meetings has been established. All directors receive an agenda and board papers in advance of meetings to help them make an effective contribution at the meetings. In addition, the executive directors ensure regular informal contact is maintained

with non-executive directors. The board makes full use of appropriate technology as a means of updating and informing all its members.

In the year under review, the board met on 13 occasions, 11 such meetings being scheduled formal board meetings with a further two additional meetings of the board called at short notice and held by telephone to consider board issues.

While the board retains overall responsibility for, and control of, the Company, day-to-day management of the business is conducted by the executive directors. Review of the Group's principal business activities is the responsibility of 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. This evaluation has been conducted by JCA Group Ltd and has taken the form of personal interviews with the directors and observations of board and committee meetings.

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 located on the Company's website. The Company is aware that the Chairman is not regarded as independent for the purposes of the Combined Code.

Audit committee

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

The audit committee has met six times during the financial year and will meet at least four times during the coming financial year (and, additionally as appropriate). A schedule of meetings for the 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. This committee also monitors the Group's accounting policies, internal financial control systems and financial reporting procedures. The audit committee provides a forum through which the Group's external and internal auditors report to the board. The auditors are invited to attend meetings of the committee on a regular basis and have the opportunity to meet privately with committee members in the absence of executive management. The audit committee oversees the relationship with the auditor, including the independence and objectivity of the auditor (taking into account UK professional and regulatory requirements and the relationship with the audit firm as a whole) and the consideration of audit fees and fees for other non-audit work. In addition, the audit committee has developed a policy designed to ensure that the auditor's objectivity and independence is not compromised by its undertaking inappropriate non-audit work. All significant non-audit work commissioned from the external auditor requires audit committee approval. An outsourced internal audit function continues to be provided by KPMG. The Group's Chief Financial Officer provides oversight and co-ordination of internal audit. In order to ensure independence internal audit has a direct reporting line to the audit committee and its chairman.

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

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

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

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

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

- To 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; to consider and make recommendations to the board in relation to the appointment, re-appointment 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 2010;
- Review of the external audit plan;
- Review of the work integrating the corporate structure of acquisitions made during the year;
- The updated policy on Market Abuse and Insider Dealing;
- Succession planning strategy for the finance function;
- Consideration of the FRC report on 'Challenges for Audit Committees Arising From Current Economic Conditions';
- Appointment of Deloitte as the Group's tax advisors; and
- The management of corporate fraud risks.

Nomination committee
The nomination committee is comprised of Kevin Loosemore (who chairs the committee), David Maloney, (the non-executive Senior independent director) and Stephen Kelly (Chief Executive Officer of the Company) and has met two times during the financial year. The nomination committee will meet at least twice during the coming financial year. David Dominik resigned as a director and from the committee on 18 February 2009 and Stephen Kelly was appointed to the committee on 23 February 2009.

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

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

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

Remuneration committee
Details of the remuneration committee are described in the remuneration report on pages 42 to 47.

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 the failings.

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

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

Human resources

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

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

Announcements

All major announcements are approved by the Chairman and the executive directors and circulated to the board prior to issue.

The Group also has internal and external checks to guard against unauthorised release of information.

Financial

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

Insurance

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

Attendance at meetings

The number of board meetings and committee meetings attended by each director in the year to 30 April 2009 was as follows:

	Board		Audit committee		Remuneration committee		Nomination committee	
	Held*	Attended	Held*	Attended	Held*	Attended	Held*	Attended
Kevin Loosemore	13	13	–	–	5	5	2	2
Stephen Kelly	13	13	–	–	–	–	–	–
Nick Bray	13	13	–	–	–	–	–	–
Prescott Ashe	4	4	–	–	–	–	–	–
David Dominik	10	10	–	–	–	–	1	1
David Maloney	13	12	6	6	5	5	2	2
Paul Pester	13	13	6	6	5	5	–	–
Tom Skelton	13	13	6	6	5	5	–	–

* During period of appointment.

Note:
Prescott Ashe resigned on 8 September 2008
David Dominik resigned on 18 February 2009

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). 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, Chairman, and David Maloney, Senior Independent Director, are available to meet with shareholders as and when required. The whole board is kept up to date at its regular meetings with the views of shareholders and analysts. External analysts' reports are also circulated to directors.

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

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

Annual General Meeting ('AGM')

The Company's AGM, which will be held on 24 September 2009 at 3pm (UK time) will provide an opportunity for the board to meet with all shareholders and participation of shareholders is encouraged. At the meeting, in addition to the statutory business, the board will be available for questions from shareholders.

In accordance with the Combined Code recommendations, the Company will count all proxy votes and will indicate the level of proxies lodged, the number of proxy votes for and against such resolution and the number of 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.

Introduction

This is the Company's remuneration report in respect of the year to 30 April 2009 and, subject to ongoing review by the remuneration committee (the 'committee') as to its appropriateness, sets out the ongoing policy in respect of the following and subsequent years.

The Company seeks to comply with the relevant conditions of the 2006 Combined Code on corporate governance relating to directors' remuneration as published by the Financial Reporting Council and the Companies Act 2006. The regulations require the auditors to report to the Company's members on the 'auditable part' of the directors' remuneration report and to state whether in their opinion that part of the report has been properly prepared in accordance with the Companies Act 2006. 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 24 September 2009. 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 five times during the financial year. The committee is responsible for reviewing remuneration arrangements for members of the board and for providing general guidance on aspects of remuneration policy throughout the Group. The committee will meet at least twice during the coming financial year.

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

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

The committee comprises Paul Pester as Chairman with David Maloney, Tom Skelton and Kevin Loosemore as its other members. Where appropriate the committee invites the views of the Chief Executive Officer, the Chief Financial Officer and the Group Human Resources Director, 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), in providing remuneration advice, by Steen and Co, solicitors, by Linklaters, solicitors, and by Watson Wyatt. 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 'Investors'.

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 and seeks to ensure that fixed costs are no higher than market median, that an appropriately significant proportion of potential pay is performance related and that total pay is consistent with appropriately competitive levels of pay for superior performance.

During the year the committee, with the assistance of HNBS and Watson Wyatt, conducted a review of all aspects of remuneration, with a particular emphasis on long-term incentive provision. Following this review the committee has decided to increase the level of annual awards of long-term incentives for the executive directors and other senior executives. This change is designed to ensure that the package of remuneration remains consistent with the policy outlined above.

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 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.

The Micro Focus International plc Incentive Plan 2005 (the 'Plan') currently has a limit of 5% in 10 years for specific awards within an overall plan limit of 10% in 10 years. The Company will be seeking shareholder approval at its AGM in September to remove the 5% in 10 years limit from the Plan, while maintaining the overall 10% in 10 years dilution limit.

The 5% in 10 years limit is likely to become a constraint due to the following:

- The majority of shares issued to date have been granted as Market Priced Options. The board believes that Market Priced Options better align management and shareholders in a company with relatively high potential and growth. These types of awards typically require the issue of a greater number of options than zero priced options (approx 2.5-3 times greater volume). The board believes that moving to zero priced options at this time would dilute the link between shareholders and management.

- Micro Focus has had and will continue to have the opportunity to create significant value through acquisition. On acquisition we will gain and hire key individuals that are necessary to the successful integration, stabilisation and growth of the acquired business. Long-term equity awards are an important part of retaining and recruiting these high calibre individuals and ensuring that the performance of the entire executive team is focused on creating long-term shareholder value. To date it has been in the best interest of shareholders to buy companies with cash and not through the issuance of shares. This has placed greater strain on the scheme.

- In July 2006, shareholders approved a resolution allowing the Company to satisfy option awards via the use of share appreciation rights ('SARs') and since then, the committee grants Market Priced Options in the form of SARs where possible. This again aligns the Company and shareholders by limiting dilution. Consistent with the ABI Guidelines, all the shares potentially subject to an outstanding option will count towards the limits until such time as a smaller number of shares are actually issued on exercise. This means that the 5% limit is pushed even when a smaller number of shares may actually be issued.

- When Micro Focus hired Stephen Kelly as the CEO and Nick Bray as the CFO in 2006, the Company's share price was relatively low necessitating large grants in terms of numbers of shares for these critical hires.

Directors' service contracts

Executive directors

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

The service contract dated 1 May 2006 with Stephen Kelly requires the Company to give 12 months' notice of termination. Stephen Kelly is required to give six months' notice of the termination of his employment should he wish to leave. The service contract dated 30 November 2005 with Nick Bray requires the Company to give 12 months' notice of termination. Nick Bray is required to give six months' notice of the termination of his employment should he wish to leave.

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

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

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

Stephen Kelly acts in the capacity of a non-executive director at Cúram Software Limited, for which he receives remuneration of £40,000 per annum. Stephen Kelly is permitted to retain these fees as the post entails personal responsibility.

Nick Bray does not serve as a non-executive director for any company. The executive directors may not accept non-executive appointments without the consent of the board.

Non-executive directors

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

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

Kevin Loosemore and David Maloney signed re-appointment letters with the Company which became effective on 4 April 2008. Tom Skelton signed an appointment letter with effect from 23 October 2006. Paul Pester signed an appointment letter which took effect on 27 June 2007. All appointments are subject to election by the shareholders at the first AGM of the Company after their appointment, and, thereafter, at least every three years. Tom Skelton and Paul Pester were elected at the AGM held on 26 September 2007. As the remaining non-executive directors were elected to the board at the AGM of the Company in September 2005, the directors have agreed to offer themselves for re-election on a rotation basis. Accordingly, Kevin Loosemore retired voluntarily and was re-elected at the Company's AGM in September 2006, David Maloney retired voluntarily and was re-elected at the Company's AGM in September 2007. Kevin Loosemore, together with executive directors Stephen Kelly and Nick Bray will be retiring voluntarily and submitting themselves for re-election by the shareholders at the AGM of the Company on 24 September 2009. The board considers it appropriate that Mr Loosemore is re-elected at the AGM. Each non-executive director still serving at the end of his term will have his appointment reviewed by the board and a further term of office may be agreed.

Where a non-executive director does not serve until the end of his term, the policy is to pay the fees due pro rata to the date of cessation.

Remuneration package

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

Annual salary

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

At 30 April 2009, the salaries of the executive directors are as follows:

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

* With effect from 1 July 2009, the committee agreed to increase each of the executive directors' salaries by 10% (from £330,000 to £363,000 for Stephen Kelly and from £220,000 to £242,000 for Nick Bray) reflecting both the increased scale of the roles in line with the growth of the Company and following significant acquisitions this year.

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 Stephen Kelly and Nick Bray includes 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, which will include regard to consensus brokers' forecasts where relevant, ensuring that the performance targets do not encourage undue risk-taking.

Details of bonuses paid to executive directors in the year to 30 April 2009 are detailed in the remuneration tables on page 46. Bonuses are awarded wholly in cash. The performance targets for Stephen Kelly resulted in a bonus of 93% of salary (out of 150%) of which 32% was from personal objectives. £66,000 of this bonus is retained and will be paid in FY2010 provided Mr Kelly remains in employment with the Company. The performance targets for Nick Bray resulted in a bonus of 91% of salary (out of 100%) of which 30% was from personal objectives. £44,000 of this bonus is retained and will be paid in FY2010 provided Mr Bray remains in employment with the Company.

In respect of the year 2009/2010 the cap on bonuses payable to Stephen Kelly remains at 150% of salary and 100% of salary for Nick Bray.

Long-term incentives

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

The Company adopted 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.

The targets for market value option awards made to the executive directors on 10 July 2009 and during the years ended 30 April 2009 and 2008 were reviewed by the committee. These require that cumulative EPS growth over a three-year vesting period is at least equal to RPI + 11% pa (at which point 25% of awards will vest), 60% of shares will vest for cumulative EPS growth of RPI + 13% pa and for full vesting the cumulative EPS growth will be required to be RPI + 15% pa. Straight-line vesting will apply between these points. 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.

The Company has made awards of market value options with a face value that is significantly below the maximum award levels allowed under the plan. The awards made in July 2008 had a face value of one times salary. This took account of the larger grants made to the executive directors on recruitment. As these recruitment awards have now vested, the existing award levels would result in overall levels of total remuneration that are significantly below the market median level. Following the review of remuneration conducted by the Committee during the year the Committee has determined that for the 2009 and future awards, award levels should be increased to 3 times salary and 2.5 times salary for the Chief Executive Officer and Chief Financial Officer, respectively.

Medium-term incentives
For the year 2010, the Company has introduced a medium-term incentive specifically targeted at achieving continued core business performance together with the integration of the Compuware and Borland acquisitions for a number of key executives. The committee believes that successful integration will add significant incremental share holder value.

The key measures for the medium-term bonus are; achievement of the core business budget in terms of revenues and EBITDA and achievement of the planned revenues, EBITDA and key milestones from the acquired entities.

The incentive for Mr Kelly and Mr Bray comprises the following elements:

- An incremental bonus of £160,000 to Stephen Kelly and £110,000 to Nick Bray that will be paid in Micro Focus shares on confirmation that the targets have been met. These shares will vest two years after grant provided that the executive remains in employment;
- A deferred pay rise of £49,500 to Stephen Kelly and £33,000 to Nick Bray that will be implemented on confirmation that the targets have been met; and
- That for 2010 the multiple of shares granted to Mr Kelly and Mr Bray will be increased by 0.5x salary to 3.5 times salary and 3.0 times salary respectively.

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

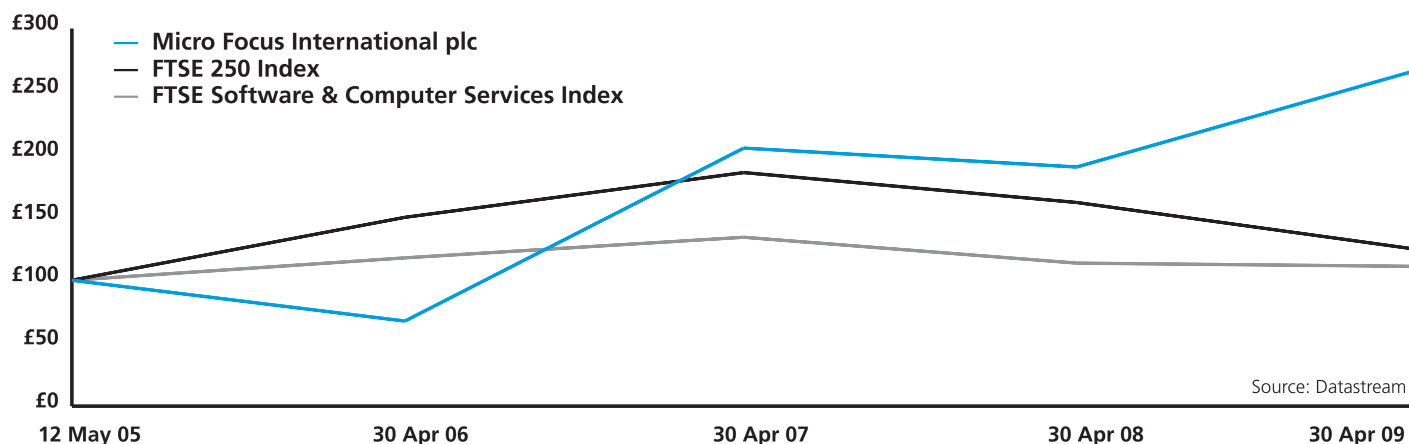
Pension contributions
All employees, including executive directors, are invited to participate in a Group Personal Pension Plan. All major schemes are money purchase in nature and have no defined benefits. A defined benefit scheme is operated in Japan, but, given the number of members, is insignificant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

The Company contributions for the executive directors are 5% of salary. The committee recognises that this contribution is low by comparison to the current market, however it does not propose to review the contribution rate in view of forthcoming legislation on pension contributions.

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 2009, 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 Group

The aggregate remuneration paid or receivable by directors during the year ending 30 April 2009 was as follows:

	Base salary and fees £'000	Bonus £'000	Benefits in kind £'000	Pensions £'000	Total 2009 £'000	Total 2008 £'000
Executive directors						
Stephen Kelly	**325**	**304**	**23**	**16**	**668**	651
Nick Bray	**217**	**198**	**13**	**11**	**439**	366
Mike Shinya (resigned 7 January 2008)	–	–	–	–	–	314
Total	**542**	**502**	**36**	**27**	**1,107**	1,331
Non-executive directors						
Kevin Loosemore	**150**	–	–	–	**150**	146
David Maloney	**64**	–	–	–	**64**	60
Paul Pester	**47**	–	–	–	**47**	38
Tom Skelton	**45**	–	–	–	**45**	38
Total	**306**	–	–	–	**306**	282

Non-executive director annual fees on 30 April 2009 were £150,000 for the Chairman, Kevin Loosemore, (30 April 2008: £150,000); £65,000 effective 1 July 2008 for the Senior Independent Director, David Maloney, (30 April 2008: £60,000), £45,000 for Paul Pester following appointment as chairman of the remuneration committee (30 April 2008: £40,000) and £40,000 for Tom Skelton (30 April 2008: £40,000). Non-executive fees are subject to periodic review. With effect from 1 July 2009, non-executive director annual fees increased to £185,000 for Kevin Loosemore (£175,000 annual fee plus £10,000 as chair of the nomination committee), £70,000 for David Maloney (£50,000 annual non-executive director fee plus £10,000 for role as Senior Independent Director and £10,000 as chair of the audit committee), £60,000 for Paul Pester (£50,000 annual non-executive director fee plus £10,000 as chair of the remuneration committee) and £50,000 for Tom Skelton (annual non-executive director fee).

Neither of the non-independent non-executive directors of the Company who resigned during the year (David Dominik and Prescott Ashe) received any emoluments during the year ended 30 April 2009 (2008: nil).

Directors' interests in share capital

At 30 April 2009 the directors owned the following shares in the Company including interests held by their connected persons:

Director	At 30 April 2009	At 30 April 2008
Kevin Loosemore	**300,000**	500,000
Stephen Kelly	**125,000**	125,000
Nick Bray	**57,770**	57,770
David Maloney	**50,000**	50,000
Tom Skelton	–	–
Paul Pester	–	–

As at 12 August 2009 there had been no changes to these interests.

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

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

	Number At 1 May 2008	Number Granted in year	Number Exercised in year	Number Lapsed in year	Number At 30 April 2009	Exercise price	Dates of exercise
Stephen Kelly[2]	1,153,846	–	–	–	**1,153,846**	104.0p	17 July 2009 to 16 July 2016
Stephen Kelly[3]	169,332	–	–	–	**169,332**	265.75p	12 July 2010 to 11 July 2017
Stephen Kelly[3]	–	134,831	–	–	**134,831**	244.75	3 July 2011 to 2 July 2018
Nick Bray[1]	412,955	–	(412,955)	–	**–**	123.5p	11 January 2009 to 10 January 2016
Nick Bray[2]	100,000	–	–	–	**100,000**	104.0p	17 July 2009 to 16 July 2016
Nick Bray[3]	75,258	–	–	–	**75,258**	265.75p	12 July 2010 to 11 July 2017
Nick Bray[3]	–	89,888	–	–	**89,888**	244.75p	3 July 2011 to 2 July 2018
Total	1,911,391	224,719	(412,955)		**1,723,155**		

1 The performance condition applying to awards made to Nick Bray on 11 January 2006 was based on growth in EPS over a three-year performance period with a minimum average annual EPS growth of RPI + 3% (25% of awards vest) and 100% vesting at an average annual EPS growth of RPI + 7%. The market price on the date that Nick Bray exercised the share options above was 295p and the total gain on the exercise was £708,000.

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

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

On 10 July 2009 market value option awards were granted to Stephen Kelly over 359,660 shares and Nick Bray over 205,520 shares, in each case at an exercise price of 353.25 pence. Dates of exercise are from 10 July 2012 to 9 July 2019. The targets for these awards require that cumulative EPS growth over a three-year vesting period is at least equal to RPI + 11% pa (at which point 25% of awards will vest). 60% of shares will vest for cumulative EPS growth of RPI + 13% pa and for full vesting the cumulative EPS growth will be required to be RPI + 15% pa. Straight-line vesting will apply between these points.

LTIP – Matching Share Scheme

During the year to 30 April 2007 the following grants were made to the executive directors in accordance with the terms of the Plan:

	At 1 May 2008	Number Lapsed in year	At 30 April 2009	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 will vest after three years to the extent that the purchased shares are held continuously by the participant until the vesting date.

Sharesave

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

	At 1 May 2008	Granted in year	Number Lapsed in year	At 30 April 2009	Exercise price	Dates of exercise
Nick Bray	11,130	–	–	**11,130**	84.0p	1 October 2009 to 31 March 2010
Total	11,130	–		**11,130**		

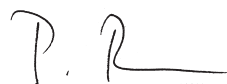
These options are not subject to performance conditions since performance conditions do not apply to this all-employee share scheme.

Share option schemes

Details of the Company's share option schemes are given in note 23 of the financial statements.

The mid-market price of the shares at 30 April 2009 was 319 pence and during the year the price varied between 188 pence and 331 pence.

On behalf of the board,



Paul Pester
Chairman of the remuneration committee
12 August 2009

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	**2009** 20.4% **2008** 33.0%	Revenue comprises total revenues including the contribution of acquisitions and is compared with the prior year.
Adjusted EBITDA margin	**2009** 43.2% **2008** 38.8%	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 generation from operations	**2009** 112.9% **2008** 97.3%*	This measure is calculated using the cash flows generated from continuing operations divided by adjusted EBITDA – the result indicates that the Group is generating cash from its ongoing business which can be used to reinvest in the development of the business including financing acquisitions, fund liabilities and pay dividends to shareholders. * amendment made to prior year cash flow resulting in a change from last year's disclosure 108.7%
Adjusted EPS	**2009** 41.51c **2008** 32.08c	Adjusted EPS is calculated by taking income for the financial year, prior to exceptional items, amortisation of purchased intangibles and share based compensation charge, 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	**2009** 89.5% **2008** 89.6%	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 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.

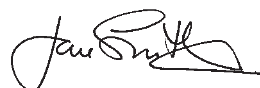
The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and the Group and enable them to ensure that the financial statements and the 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. 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
12 August 2009

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 2009 which comprise the consolidated income statement, the consolidated balance sheet, the consolidated statement of changes in shareholders' equity, the consolidated cash flow statement and the related notes. 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 49, 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 Sections 495 and 496 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 2009 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 matter 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.

Matters on which we are required to report by exception
We have nothing to report in respect of the following:

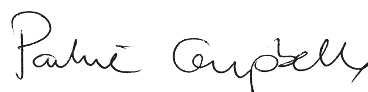
Under the Companies Act 2006 we are required to report to you if, in our opinion:

- 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 37, 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 2006 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 2009 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
12 August 2009

Consolidated financial statements and notes

Consolidated income statement

for the year ended 30 April 2009

	Notes	2009 $'000	2008 $'000
Revenue	1,2	**274,731**	228,196
Cost of sales		**(22,377)**	(22,582)
Gross profit		**252,354**	205,614
Selling and distribution costs		**(78,128)**	(63,233)
Research and development expense		**(34,127)**	(29,484)
Administrative expenses		**(48,888)**	(38,105)
Operating profit		**91,211**	74,792
Analysed as:			
Operating profit before exceptional items		**106,118**	81,294
Exceptional items	3	**(14,907)**	(6,502)
Operating profit		**91,211**	74,792
Finance costs	5	**(756)**	(12)
Finance income	5	**994**	2,043
Profit before tax	1,3	**91,449**	76,823
Taxation	6	**(25,419)**	(21,404)
Profit after tax		**66,030**	55,419
Earnings per share expressed in cents per share		cents	cents
– basic	8	**32.87**	27.67
– diluted	8	**31.92**	26.97
Earnings per share expressed in pence per share		pence	pence
– basic	8	**19.93**	13.79
– diluted	8	**19.36**	13.44

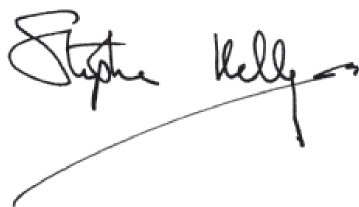
All results are from continuing operations.

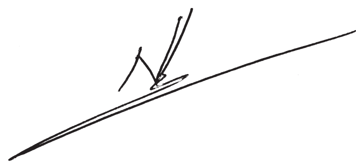
Consolidated balance sheet

as at 30 April 2009

	Notes	2009 $'000	2008 $'000
ASSETS			
Non-current assets			
Goodwill	9	**119,813**	65,784
Other intangible assets	10	**66,349**	35,282
Property, plant and equipment	11	**5,112**	4,359
Deferred tax assets	19	**17,625**	15,577
		208,899	121,002
Current assets			
Inventories	12	**128**	192
Trade and other receivables	13	**67,089**	59,205
Cash and cash equivalents	14	**71,569**	92,405
		138,786	151,802
Total assets		**347,685**	272,804
Liabilities			
Current liabilities			
Trade and other payables	15	**121,120**	103,859
Current tax liabilities	16	**22,187**	19,245
		143,307	123,104
Non-current liabilities			
Non-current deferred income	17	**7,085**	6,518
Deferred tax liabilities	19	**28,565**	16,660
		35,650	23,178
Net assets		**168,728**	126,522
EQUITY			
Share capital	20	**37,092**	36,837
Share premium	21	**106,200**	103,904
Profit and loss reserve		**56,870**	12,679
Foreign currency translation (deficit) reserve		**(4,349)**	187
Other reserves (deficit)		**(27,085)**	(27,085)
Total equity		**168,728**	126,522

The consolidated financial statements on pages 51 to 78 were approved by the board of directors on 12 August 2009 and were signed on its behalf by:





Stephen Kelly
Chief Executive Officer

Nick Bray
Chief Financial Officer

Consolidated statement of changes in shareholders' equity

for the year ended 30 April 2009

	Share capital $'000	Share premium $'000	Foreign currency translation reserve (deficit) $'000	Other reserves (deficit)[1] $'000	Profit and loss reserve (deficit) $'000	Total $'000
Balance as at 1 May 2007	36,767	104,054	1,163	(27,085)	(23,394)	91,505
Currency translation differences	–	–	(976)	–	–	(976)
Profit for the year	–	–	–	–	55,419	55,419
Dividends	–	–	–	–	(21,229)	(21,229)
Issue of share capital	70	–	–	–	–	70
Movement in relation to share options	–	(150)	–	–	1,487	1,337
Deferred tax on share options	–	–	–	–	396	396
Balance as at 30 April 2008	**36,837**	**103,904**	**187**	**(27,085)**	**12,679**	**126,522**
Currency translation differences	–	–	(4,536)	–	–	(4,536)
Profit for the year	–	–	–	–	66,030	66,030
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**

1 The deficit in other reserves was established in May 2005 when the Company was set up in its present format prior to admission to the London Stock Exchange.

Consolidated cash flow statement

for the year ended 30 April 2009

	Notes	2009 $'000	2008 $'000
Cash flows from operating activities			
Cash generated from operations	22	**105,031**	90,975
Interest received		**994**	2,051
Interest paid		**(756)**	(12)
Tax paid		**(19,991)**	(18,193)
Net cash from operating activities		**85,278**	74,821
Cash flows from investing activities			
Payments for intangible assets	10	**(8,609)**	(6,272)
Purchase of property, plant and equipment	11	**(2,650)**	(3,183)
Acquisition of subsidiaries	27	**(92,111)**	(41,576)
Disposal of property, plant and equipment		**18**	–
Net cash acquired with subsidiaries	27	**28,444**	678
Net cash used in investing activities		**(74,908)**	(50,353)
Cash flows from financing activities			
Proceeds from issue of ordinary share capital		**1,517**	71
Repayment of borrowings		**–**	(113)
Dividends paid to shareholders	7	**(26,076)**	(21,229)
Net cash used in financing activities		**(24,559)**	(21,271)
Effects of exchange rate changes		**(6,647)**	4,237
Net (decrease) increase in cash and cash equivalents		**(20,836)**	7,434
Cash and cash equivalents at 1 May 2008		**92,405**	84,971
Cash and cash equivalents at 30 April 2009	14	**71,569**	92,405

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

1 Group accounting policies

A Basis of preparation

The consolidated financial statements of Micro Focus International plc have been prepared in accordance with EU endorsed International Financial Reporting Standards ('IFRS'), IFRIC interpretations and the Companies Act 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 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 Segmental reporting

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

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

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.

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 to use the specific software. These costs are amortised using the straight-line method over their estimated useful lives of three to five years.

c) Research and development

Research expenditure is recognised as an expense as incurred. Costs incurred on development projects relating to the developing of new computer software programmes and significant enhancement of existing computer software programmes are recognised as intangible assets when it is probable that the project will be a success, considering its commercial and technological feasibility, and costs can be measured reliably. Only direct costs are capitalised which 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 lives of each intangible asset. Intangible assets are amortised from the date they are available for use. The estimated useful lives will vary for each category of asset acquired and to date are as follows:

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

I Property, plant and equipment

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

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

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

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. Transaction costs incurred in the arrangement of new borrowing facilities are capitalised and netted against the capital element of the outstanding borrowing. These costs are then amortised over the life of the facility to which the costs relate on the effective interest basis.

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.

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.

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

International Financial Reporting Standards ('IFRSs')
- IFRS 8, 'Operating Segments' – 1 January 2009
- IFRS 3 (revised), 'Business Combinations' – 1 July 2009

International Financial Reporting Interpretations Committee ('IFRIC'):
- IFRIC 13, 'Customer loyalty programmes' – 1 July 2008
- IFRIC 14, IAS19 – 'The Limit of a Defined Benefit Asset, Minimum Funding Requirements and their Interaction' – 1 January 2009
- IFRIC 15, 'Agreements for construction of real estates' – 1 January 2009
- IFRIC 16, 'Hedges of a net investment in a foreign operation' – 1 October 2008
- IFRIC 17, 'Distribution of non-cash assets to owners' – 1 July 2009
- IFRIC 18, 'Transfer of assets from customers' – 1 July 2009

Amendments to existing standards:
- Amendment to IAS 1, 'Presentation of Financial Statements: A Revised Presentation' – 1 January 2009
- Amendment to IAS 16, 'Property, plant and equipment' – 1 January 2009
- Amendment to IAS 19, 'Employee benefits' – 1 January 2009
- Amendment to IAS 20, 'Accounting for government grants and disclosure of government assistance' – 1 January 2009
- Amendment to IAS 23, 'Borrowing costs' – 1 January 2009
- Amendment to IAS 27, 'Consolidated and Separate Financial Statements' – 1 January 2009
- Amendment to IAS 28, 'Investments in associates' – 1 January 2009
- Amendment to IAS 32, 'Financial Instruments: Presentation and IAS 1, Presentation of Financial Statements: Puttable Financial Instruments and Obligations Arising on Liquidation' – 1 January 2009
- Amendment to IAS 36, 'Impairment of assets' – 1 January 2009
- Amendment to IAS 38, 'Intangible assets' – 1 January 2009
- Amendment to IAS 39, 'Financial instruments: Recognition and Measurement' – 1 July 2008
- Amendment to IAS 39, 'Financial instruments: Recognition and Measurement on eligible hedged items' – 1 July 2009
- Amendment to IFRS 1, 'First time adoption of IFRS' – 1 July 2009
- Amendment to IFRS 2, 'Share based Payment: Vesting Conditions and Cancellations' – 1 January 2009
- Amendment to IFRS 5, 'Non-current assets held for sale and discontinued operations' – 1 January 2009
- Amendment to IFRS 7, 'Financial Instruments: Disclosures on the reclassification of Financial Assets' – 1 July 2008

All the IFRS, IFRIC interpretations and amendments to existing standards are yet to be adopted by the EU at the date of approval of these consolidated statements with the exception of: IFRIC 13, IFRIC 16, IFRS 8, IFRS 3 (revised) and the amendments to IAS 1, IAS 16, IAS 20, IAS 23, IAS 27, IAS 32 and IFRS 2. The implementation date for the above will be the annual period beginning on or after the date shown.

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

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

a) Impairment of goodwill
The Group tests annually whether goodwill has suffered any impairment in accordance with the accounting policy 1J. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates.

b) Income taxes
The Group is subject to income taxes in numerous jurisdictions. Significant 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.

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.

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.

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, the Euro and the Japanese Yen. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments in foreign operations. Foreign exchange risk arises when future commercial transactions, recognised assets and liabilities are denominated in a currency that is not the entity's functional currency.

There were no hedging transactions in place at 30 April 2009.

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

1 Segmental reporting

Primary reporting format – geographical segments

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

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

There are immaterial sales between the geographical segments. The revenue analysis in the table below is based on the location of the customers where the order is received which is not materially different from the location of the assets. The operating profit for each segment takes into account the transfer pricing agreements in place between the Group companies.

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

Year ended 30 April 2009

	Notes	North America $'000	Europe and the Middle East $'000	Rest of the World $'000	Total $'000
Revenue		**124,034**	**113,122**	**37,575**	**274,731**
Segment result (operating profit) before exceptional items		17,450	87,538	1,130	106,118
Exceptional items		(8,207)	(6,700)	–	(14,907)
Segment result (operating profit)		9,243	80,838	1,130	91,211
Finance income – net	5				238
Profit before tax					**91,449**
Taxation	6				(25,419)
Net profit					**66,030**
Segment assets		122,551	195,608	11,901	330,060
Unallocated assets:					
Deferred tax assets	19				17,625
Total assets					**347,685**
Segment liabilities		50,679	65,251	12,275	128,205
Unallocated liabilities:					
Current and deferred tax liabilities					50,752
Total liabilities					**178,957**
Other segment items					
Capital expenditure	11	599	1,983	68	2,650
Depreciation	11	649	1,188	73	1,910
Share based compensation	23	305	2,014	88	2,407
Amortisation of intangible assets	10	4,003	9,726	–	13,729

1 Segmental reporting (continued)

Year ended 30 April 2008

	Notes	North America $'000	Europe and the Middle East $'000	Rest of the world $'000	Total $'000
Revenue		**96,482**	**96,018**	**35,696**	**228,196**
Segment result (operating profit) before exceptional items		12,384	68,154	756	81,294
Exceptional items		(3,094)	(3,408)	–	(6,502)
Segment result (operating profit)		9,290	64,746	756	74,792
Finance income – net	5				2,031
Profit before tax					**76,823**
Taxation	6				(21,404)
Net profit					**55,419**
Segment assets		88,328	157,925	10,974	257,227
Unallocated assets:					
Deferred tax assets	19				15,577
Total assets					**272,804**
Segment liabilities		71,455	26,004	12,918	110,377
Unallocated liabilities:					
Current and deferred tax liabilities					35,905
Total liabilities					**146,282**
Other segment items					
Capital expenditure	11	1,275	1,850	58	3,183
Depreciation	11	460	1,085	58	1,603
Share based compensation	23	167	1,143	27	1,337
Amortisation of intangible assets	10	2,108	7,482	–	9,590

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

2 Supplementary information

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

	2009 $'000	2008 $'000
Licence	**130,774**	113,314
Maintenance	**132,334**	104,144
Consulting	**11,623**	10,738
Total	**274,731**	228,196

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):

	Note	2009 $'000	2008 $'000
Staff costs	23	**110,153**	89,581
Depreciation of property, plant and equipment			
– owned assets	11	**1,910**	1,593
– assets under finance lease		**–**	10
Amortisation of intangibles	10	**13,729**	9,590
Changes in inventories of finished goods	12	**64**	63
Operating lease rentals payable			
– plant and machinery		**1,672**	1,366
– other		**6,413**	4,908
Foreign exchange gains		**(3,416)**	(784)

Exceptional items

	2009 $'000	2008 $'000
Reorganisation costs	**14,907**	6,502

Current year reorganisation costs relate to restructuring programmes carried out in Europe and the USA arising from the acquisition of NetManage, Liant and Relativity Technologies. The prior year reorganisation costs relate to restructuring programmes carried out in Europe and the USA arising from the acquisition of Acucorp. The restructuring comprised costs associated with the closure of offices and redundancy of staff across the Group.

Severance costs included within reorganisation costs are not included within staff costs disclosed in note 23.

All exceptional items relate to administrative expenses.

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

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

	2009 $'000	2008 $'000
Audit services		
– Fees payable to the Company auditor for the audit of the parent Company and consolidated accounts	**67**	98
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	**405**	314
– Services related to taxation	**248**	828
– Other services pursuant to legislation	**–**	34
– Other services	**604**	302
Total	**1,324**	1,576

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

Other services relate to due diligence.

4 Reconciliation of operating profit to EBITDA

	Notes	2009 $'000	2008 $'000
Operating profit		**91,211**	74,792
Exceptional items – reorganisation costs	3	**14,907**	6,502
Share based compensation charge	23	**2,407**	1,337
Amortisation of purchased intangibles	10	**7,123**	3,946
Adjusted operating profit		**115,648**	86,577
Depreciation	11	**1,910**	1,603
Amortisation of software	10	**1,037**	337
Adjusted EBITDA		**118,595**	88,517
EBITDA		**101,281**	80,678
Exceptional items – reorganisation costs	3	**14,907**	6,502
Share based compensation charge	23	**2,407**	1,337
Adjusted EBITDA		**118,595**	88,517

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

5 Interest payable/receivable and similar charges

	2009 $'000	2008 $'000
Finance costs		
Interest expense on bank borrowings	**50**	11
Bank facility costs	**706**	–
Interest expense on finance leases	**–**	1
Total	**756**	12

Finance income

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

6 Taxation

	2009 $'000	2008 $'000
Current tax		
Current year	**27,604**	21,574
Adjustments to tax in respect of previous years	**(3,324)**	(1,569)
	24,280	20,005
Deferred tax		
Current year	**2,376**	1,329
Adjustments to tax in respect of previous years	**(1,237)**	70
	1,139	1,399
Total	**25,419**	21,404

Deferred tax of $1.3 million (2008: $0.4 million) 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% (2008: 30%). The differences are explained below:

	2009 $'000	2008 $'000
Profit before taxation	**91,449**	76,823
Tax at UK corporation tax rate 28% (2008: 30%) applicable to profits in the respective countries	**25,606**	23,047
Effects of:		
Adjustments to tax in respect of previous years – current tax	**(3,324)**	(1,569)
Adjustments to tax in respect of previous years – deferred tax	**(1,237)**	70
Adjustment for foreign tax rates	**2,191**	1,212
Expenses not deductible for tax purposes	**1,564**	1,891
Tax loss utilisation	**619**	(844)
Other	**–**	(2,403)
Total taxation	**25,419**	21,404

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 19.

7 Dividends

Equity – ordinary

	2009 $'000	2008 $'000
2008 final paid 9.4 cents (2007: 7.0 cents) per ordinary share	**17,592**	14,016
2009 interim paid 4.5 cents (2008: 3.6 cents) per ordinary share	**8,484**	7,213
	26,076	21,229

The directors are proposing a final dividend in respect of the year ended 30 April 2009 of 11.1 cents per share which will utilise $22.4 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.

	2009			2008		
	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	**66,030**	**200,905**	**32.87**	55,419	200,268	27.67
Effect of dilutive securities						
Options		**5,940**			5,216	
Diluted EPS						
Earnings attributable to ordinary shareholders	**66,030**	**206,845**	**31.92**	55,419	205,484	26.97
Supplementary EPS to exclude exceptional items						
Basic EPS	**66,030**	**200,905**	**32.87**	55,419	200,268	27.67
Adjusted items[1]	**24,437**			11,785		
Tax relating to above items[1]	**(7,069)**			(2,954)		
Basic EPS – adjusted	**83,398**	**200,905**	**41.51**	64,250	200,268	32.08
Diluted EPS	**66,030**	**206,845**	**31.92**	55,419	205,484	26.97
Adjusted items[1]	**24,437**			11,785		
Tax relating to above items[1]	**(7,069)**			(2,954)		
Diluted EPS – adjusted	**83,398**	**206,845**	**40.32**	64,250	205,484	31.27

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 $1.65 to £1 (2008: $2.01 to £1).

9 Goodwill

	2009 $'000	2008 $'000
Cost and net book amount		
At 1 May 2008	**65,784**	42,533
Acquisition (note 27)	**51,686**	23,321
Adjustment relating to prior years (note 27)	**2,343**	(70)
At 30 April 2009	**119,813**	65,784
A segment-level summary of the goodwill allocation is presented below:		
North America	**60,514**	47,521
Europe and the Middle East	**55,860**	14,824
Rest of the world	**3,439**	3,439
At 30 April 2009	**119,813**	65,784

Details of the acquisitions in the year are shown in note 27.

Goodwill is allocated to the Group's cash generating units ('CGUs') which represent the operations of a country or, in more material operations, divisions within a country. It has been determined that the three geographical segments, which form the primary reporting format each equate to a CGU. For each CGU the Group has determined its recoverable amount. The recoverable amount is determined based on value-in-use calculations. No impairment charge was required in the year (2008: $Nil) and the cumulative impairment charge recognised to date is $Nil (2008: $Nil).

The key assumptions in the value-in-use calculations are the discount rate applied, the long-term operating margin and the long-term growth rate of net operating cash flows. These are based on the forecast operating cash flows for the next five years based on approved budgets and plans. These budgets and plans are based on past performance and expectations for the market development of the CGU.

- The discount rate applied to a CGU represents a pre-tax rate that reflects the market assessment of the time value of money at the balance sheet date and the risks specific to the CGU. The discount rate applied to each CGU's operations was 11% (2008: 8.9%).

- The long-term operating margin assumed for each CGU is primarily based upon past performance adjusted as appropriate where management believe that past operating margins are not indicative of future operating margins. In these instances, expected future improvements from sustainable cost savings are also included in management's assessment of the long-term operating margin. The long-term operating margin applied to CGUs was 38.6% (2008: 35.6%)
- Long-term growth rates of net operating cash flows are assumed to be no greater than the long-term growth rate in the in the gross domestic product of the countries in which the CGU operates and were 1.5% (2008: 3%).
- Long-term growth and discount 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; and
  - The Group has no debt and therefore no gearing across all CGUs.

Sensitivity analysis as at 30 April 2009 has indicated that no reasonably foreseeable change in the key assumptions used in the impairment model would result in a significant impairment charge being recorded in the financial statements.

10 Other intangible assets

	Purchased software $'000	Development costs $'000	Technology $'000	Trade names $'000	Customer relationships $'000	Non-compete agreements $'000	Total $'000
Cost							
At 1 May 2008	5,321	31,814	18,722	1,175	10,960	292	68,284
Acquisition (note 27)	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**

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

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).

11 Property, plant and equipment

	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
Acquisition	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**

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

12 Inventories

	2009 $'000	2008 $'000
Finished goods	**128**	192

13 Trade and other receivables

	2009 $'000	2008 $'000
Trade receivables	**63,272**	52,676
Less: provision for impairment of trade receivables	**(1,593)**	(1,217)
Trade receivables net	**61,679**	51,459
Prepayments	**4,514**	3,659
Accrued income	**896**	4,087
Total	**67,089**	59,205

13 Trade and other receivables (continued)

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 2009, the carrying amount approximates the fair value of the instrument due to the short-term nature of the instrument.

At 30 April 2009, trade receivables of $13.1 million (2008: $7.8 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 35 days in excess of due date (2008: 32 days).

As at 30 April 2009, trade receivables of $1.6 million (2008: $1.1 million) were either partially or fully impaired. The amount of the provision was $1.6 million (2008: $1.2 million). The ageing of these receivables is as follows:

	2009 $'000	2008 $'000
Three to four months	**321**	434
Over four months	**1,272**	692
Total	**1,593**	1,126

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

	2009 $'000	2008 $'000
At 1 May 2008	**1,217**	242
Provision for receivables impairment	**643**	718
Acquisition of subsidiaries	**114**	581
Receivables written off as uncollectable	**(275)**	(430)
Exchange adjustments	**(106)**	106
At 30 April 2009	**1,593**	1,217

14 Cash and cash equivalents

	2009 $'000	2008 $'000
Cash at bank and in hand	**18,267**	25,626
Short-term bank deposits	**53,302**	66,779
Total	**71,569**	92,405

The effective interest rate on short-term deposits was 0.4% (2008: 2.8%) and these deposits have an average maturity of one day (2008: three days).

At 30 April 2009, the carrying amount approximates to the fair value of the instrument due to the instrument bearing interest at market rates and/or the short-term nature of the instrument.

15 Trade and other payables – current

	2009 $'000	2008 $'000
Trade payables	**4,477**	4,964
Other tax and social security payable	**3,876**	4,477
Accruals	**33,403**	26,053
Deferred income	**79,364**	68,365
Total	**121,120**	103,859

At 30 April 2009, the carrying amount approximates to fair value of the instrument due to the short-term nature of the instrument.

16 Current tax liabilities

	2009 $'000	2008 $'000
Corporation tax	**22,187**	19,245

17 Other non-current liabilities

	2009 $'000	2008 $'000
Deferred income	**7,085**	6,518

18 Financial instruments

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

At 30 April 2009, the Group did not have net debt and therefore no gearing.

On 13 May 2008, the Company entered into a $40 million credit facility with HSBC Bank Plc and Lloyds TSB Bank plc for general corporate purposes. The facility expired on 12 May 2009.

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.

19 Deferred tax

	2009 $'000	2008 $'000
Net deferred tax liability		
At 1 May 2008	**(1,083)**	(60)
Charged to income statement	**(1,139)**	(1,399)
Credited directly to equity	**1,305**	396
Foreign exchange adjustment	**(818)**	–
Booked to goodwill	**(2,343)**	–
Acquisition of subsidiaries	**(6,862)**	(20)
At 30 April 2009	**(10,940)**	(1,083)

	Tax losses $'000	Other temporary differences $'000	Total $'000
Deferred tax assets			
At 1 May 2008	8,354	7,223	15,577
Charged to income statement	(1,330)	(1,919)	(3,249)
Credited directly to equity	–	1,305	1,305
Foreign exchange adjustment	–	(820)	(820)
Acquisition of subsidiaries	3,749	1,063	4,812
At 30 April 2009	**10,773**	**6,852**	**17,625**

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.

19 Deferred tax (continued)

	Other temporary differences $'000	Total $'000
Deferred tax liabilities		
At 1 May 2008	16,660	16,660
Charged to income statement	(2,112)	(2,112)
Adjustment booked to goodwill	2,343	2,343
Acquisition of subsidiaries	11,674	11,674
At 30 April 2009	**28,565**	**28,565**

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.

20 Called up share capital

	2009 $	2008 $
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

	2009		2008	
	Number	$	Number	$
Issued and fully paid				
Ordinary shares of £0.10 each	**202,111,131**	**37,091,806**	200,430,656	36,836,791
Total allotted, called up and fully paid share capital	**202,111,131**	**37,091,806**	200,430,656	36,836,791

Potential issues of ordinary shares

Certain employees hold options to subscribe for shares in the Company at prices ranging from 1 penny to 321 pence under the share option schemes approved by shareholders in 2001, the Long-term Incentive Plan 2005, Sharesave and ESPP. The number of shares subject to options at 30 April 2009 was 6,773,585 (2008: 6,369,627). Further information on these options is disclosed in note 23.

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.

21 Share premium account

	2009 $'000	2008 $'000
At 1 May 2008	**103,904**	104,054
Movement in relation to share options exercised	**2,296**	(150)
At 30 April 2009	**106,200**	103,904

22 Cash generated from operations

	Notes	2009 $'000	2008 $'000
Continuing operations			
Net profit		**66,030**	55,419
Adjustments for:			
Net interest		**(238)**	(2,031)
Taxation	6	**25,419**	21,404
Depreciation	11	**1,910**	1,603
Loss on disposal of property, plant and equipment		**418**	9
Loss on disposal of intangible asset		**7**	–
Amortisation of intangibles	10	**13,729**	9,590
Share based compensation		**2,407**	1,337
Exchange movements		**3,444**	(5,213)
Changes in working capital:			
Inventories		**64**	118
Trade and other receivables		**1,567**	(9,469)
Payables and other non-current liabilities		**(9,726)**	18,208
Cash generated from continuing operations		**105,031**	90,975

23 Employees and directors

	2009 $'000	2008 $'000
Staff costs		
Wages and salaries	**93,924**	75,789
Social security costs	**10,900**	9,859
Other pension costs (note 24)	**2,922**	2,596
Cost of employee share schemes	**2,407**	1,337
Total	**110,153**	89,581

	2009 number	2008 number
Average monthly number of people (including executive directors) employed by business group:		
Sales and distribution	**312**	229
Research and development	**241**	190
General and administration	**202**	172
Total	**755**	591

	2009 $'000	2008 $'000
Key management compensation		
Salaries and short-term employee benefits	**5,055**	5,629
Post-employment benefits	**147**	121
Share based payments	**1,266**	667
Total	**6,468**	6,417

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

Share based payments

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

Share Purchase and Option Plan 2001

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

23 Employees and directors (continued)

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

	2009		2008	
	Options	Weighted average exercise price pence	Options	Weighted average exercise price pence
At 1 May	904,082	7p	1,329,905	8p
Exercised	(591,780)	5p	(362,251)	6p
Forfeited	–	–	(63,572)	6p
Outstanding at 30 April	**312,302**	**7p**	904,082	7p
Exercisable at 30 April	**312,302**	**7p**	904,082	7p

The weighted average remaining contractual life is 0 years (2008: 0 years). All outstanding options have exercise prices in the range '1p to 30p' (2008: '1p to 30p').

The weighted average share price for options exercised in the year was 293 pence (2008: 273 pence).

No amount was charged through the income statement (2008: 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.

	2009		2008	
	Options	Weighted average exercise price pence	Options	Weighted average exercise price pence
At 1 May	4,562,219	131p	4,663,580	89p
Exercised	(925,619)	60p	–	–
Forfeited	(181,445)	151p	(1,430,515)	101p
Granted	2,033,417	231p	1,329,154	244p
Outstanding at 30 April	**5,488,572**	**176p**	4,562,219	131p
Exercisable at 30 April	**68,510**	**10p**	–	–

The weighted average share price for options exercised in the year was 296 pence.

The amount charged to the income statement in respect of the scheme was $2.1 million (2008: $1.2 million).

	2009			2008		
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	1.4p	483	1.2	6.2p	864	1.1
£0.11 – £1.00	–	–	–	–	–	–
£1.01 – £2.00	112.8p	2,171	0.3	115.6p	2,623	1.2
£2.01 – £3.00	255.1p	2,777	1.9	264.1p	1,075	2.2
More than £3.00	310.6p	57	2.6	–	–	–
	175.8p	**5,488**	**1.2**	131.0p	4,562	1.4

The weighted average fair value of options granted during the year determined using the Black-Scholes valuation model was £1.13 (2008: £1.05). The significant inputs into the model were weighted average share price of £2.51 (2008: £2.58) at the grant date, exercise price shown above, volatility of 65% (2008: 54%), dividend yield of 2.5% (2008: 1.8%), an expected option life of three years and an annual risk-free interest rate of 4.23% (2008: 4.93%). The volatility measured at the standard deviation of continuously compounded share returns is based on statistical daily share prices over the last three years.

23 Employees and directors (continued)

Sharesave and Employee Stock Purchase Plan 2006

In August 2006, the Company introduced the Micro Focus Employee Stock Purchase Plan 2006, approved by members on 25 July 2006. There are two plans; the Sharesave Plan ('Sharesave') primarily for UK employees, and the Employee Stock Purchase Plan ('ESPP') for employees in the USA and Canada. The Sharesave and ESPP provide for an annual award of options at a discount to the market price and are open to all eligible Group employees. Further Sharesave and ESPP grants were made during the year to 30 April 2009.

	2009		2008	
Sharesave	Options	Weighted average exercise price pence	Options	Weighted average exercise price pence
At 1 May	741,275	104p	733,240	84p
Exercised	(6,939)	84p	–	–
Forfeited	(47,326)	179p	(85,701)	101p
Granted	130,363	219p	93,736	239p
Outstanding at 30 April	**817,373**	**118p**	741,275	104p
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

	2009		2008	
ESPP	Options	Weighted average exercise price pence	Options	Weighted average exercise price pence
At 1 May	**192,362**	**120p**	219,682	97p
Exercised	**(156,137)**	**97p**	–	–
Forfeited	**(15,255)**	**190p**	(57,631)	97p
Granted	**134,368**	**253p**	30,311	243p
Outstanding at 30 April	**155,338**	**251p**	192,362	120p
Exercisable at 30 April	**–**	**–**	–	–

Date of grant	Exercise price per share pence	Exercise period
1 October 2006	97p	1 October 2008 – 31 March 2009
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

The amount charged to the income statement in respect of the Sharesave and ESPP schemes was $284,000 (2008: $185,000).

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 £1.20 (2008: £1.14). The significant inputs into the model were weighted average share price of £2.81 (2008: £2.77) at the grant date, exercise price shown above, volatility of 65% (2008: 54%), dividend yield of 2.5% (2008: 1.8%), an expected option life of two or three years and an annual risk-free interest rate of 4.23% (2008: 4.93%). The volatility measured at the standard deviation of continuously compounded share returns is based on statistical daily share prices over the last three years.

24 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.

24 Pension commitments (continued)

Pension costs for defined contributions schemes are as follows:

	2009 $'000	2008 $'000
Defined contribution schemes	**2,922**	2,596

25 Operating lease commitments – minimum lease payments

At 30 April 2009 the Group has total lease agreements in respect of properties, vehicles, plant and equipment, for which the payments extend over a number of years.

	2009 $'000	2008 $'000
Commitments under non-cancellable operating leases expiring:		
Within one year	**2,797**	2,463
Later than one year and less than five years	**10,009**	9,017
After five years	**8,343**	14,771
Total	**21,149**	26,251

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.

26 Capital commitments and contingent liabilities

The Group had no capital commitments or contingent liabilities at 30 April 2009 (2008: nil).

27 Business combinations

A Acquisition of NetManage, Inc

On 17 June 2008, the Group acquired 100% of the share capital of NetManage, Inc. for $76.2 million, inclusive of $2.8 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	4,182	27,000
Property, plant and equipment	1,086	1,086
Trade and other receivables	5,636	5,636
Cash and cash equivalents	27,878	27,878
Taxation	(277)	(277)
Trade and other payables	(6,173)	(7,042)
Deferred Income	(11,431)	(11,431)
Deferred tax liability	–	(3,294)
Net assets	20,901	39,556
Goodwill		36,684
Consideration		76,240
Consideration satisfied by:		
Cash		76,240
Outflow of cash to acquire business, net of cash acquired:		
Cash consideration		73,406
Acquisition costs		2,834
Cash acquired		(27,878)
		48,362

27 Business combinations (continued)
The intangible assets acquired as part of the acquisition can be analysed as follows:

	Fair value $'000
Software	10,000
Customer relationships	17,000
Total	**27,000**

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 customers of NetManage.

B Acquisition of Liant Software Corporation
On 11 July 2008, the Group acquired 100% of the share capital of Liant Software Corporation for $5.0 million, inclusive of $0.1 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	–	3,570
Property, plant and equipment	176	176
Trade and other receivables	1,269	1,269
Cash and cash equivalents	246	246
Taxation	(65)	(65)
Trade and other payables	(1,827)	(3,917)
Deferred tax liability	–	(1,425)
Net liabilities	(201)	(146)
Goodwill		5,164
Consideration		5,018
Consideration satisfied by:		
Cash		5,018
Outflow of cash to acquire business, net of cash acquired:		
Cash consideration		4,910
Acquisition costs		108
Cash acquired		(246)
		4,772

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

Software	1,771
Customer relationships	1,799
Total	**3,570**

Goodwill represents the value of anticipated synergies, workforce in place and projected future economic benefits from enhancing the Group's product portfolio.

C Acquisition of Relativity Technologies, Inc.
On 31 December 2008, the Group acquired 100% of the share capital of Relativity Technologies, Inc. for $10.9 million, inclusive of $0.5 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	–	5,197
Property, plant and equipment	256	256
Trade and other receivables	2,362	2,546
Cash and cash equivalents	320	320
Trade and other payables	(5,164)	(5,164)
Deferred tax liability	–	(2,140)
Net (liabilities)/assets	(2,226)	1,015
Goodwill		9,838
Consideration		10,853
Consideration satisfied by:		
Cash		10,853
Outflow of cash to acquire business, net of cash acquired:		
Cash consideration		10,316
Acquisition costs		537
Cash acquired		(320)
		10,533

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

Software	2,883
Customer relationships	2,314
Total	**5,197**

Goodwill represents the value of the assembled workforce at the time of acquisition with specific knowledge and expertise in application modernization. It also includes the economic benefits expected to be derived from enhancing the Group's products and services available to the Company's existing customer base with those customers of Relativity Technologies.

D Contribution of acquisitions
The acquired businesses contributed the following revenues to the Group for the period from date of acquisition to 30 April 2009.

	$'000
NetManage, Inc	24,700
Liant Software Corporation	4,100
Relativity Technologies, Inc.	2,900
Total	**31,700**

If the companies had been acquired as at 1 May 2008, they would have contributed the following to the Group's revenue.

	$'000
NetManage, Inc	27,900
Liant Software Corporation	5,600
Relativity Technologies, Inc.	9,800
Total	**43,300**

The acquired companies operations have been restructured and largely integrated into existing Micro Focus businesses and therefore it is not practicable to ascertain the profits of these businesses for the period from date of acquisition to 30 April 2009.

27 Business combinations (continued)
E Analysis of outflow of cash in respect of acquisitions
The outflow of cash and cash equivalents on the acquisitions is as follows:

	$'000
NetManage, Inc.	76,240
Liant Software Corporation	5,018
Relativity Technologies, Inc.	10,853
Net cash outflow	**92,111**

During the year to 30 April 2009, adjustments were made in respect of goodwill on a prior year acquisition of $2.4 million due to changes in the tax rates at which the deferred tax liabilities in respect of the intangible assets recognised will unwind. The prior year comparatives have not been amended as the adjustment is not considered material.

The interim results for the half year to 31 October 2008 included provisional fair values for the acquisitions of NetManage, Inc. and Liant Software Corporation. These fair values have been further reviewed as above.

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

As described in the remuneration report, the former non-executive directors David Dominik and Prescott Ashe are directors in Golden Gate Capital. Golden Gate Capital was a shareholder until 23 February 2009 when it disposed of its remaining shareholding in the Company. There were no related party transactions with this company during the year ended 30 April 2009 or with any other third party.

29 Borrowing facilities
On 13 May 2008 the Company entered into a $40 million credit facility with HSBC Bank plc and Lloyds TSB Bank plc for general corporate purposes. The facility expired in May 2009 and incurred facility fees at market rates.

30 Events after the balance sheet date
A. Acquisition of Borland Software Corporation
The Company announced on 6 May 2009, that it had reached agreement on a recommended cash offer of $1.00 per share for the entire issued and outstanding share capital of Borland Software Corporation ('Borland'), the NASDAQ-listed software provider. On 18 June 2009, the Company announced that the offer had been increased to $1.15 per share and on 1 July 2009 the offer was increased to $1.50.

The offer values the existing issued share capital of Borland at approximately $113.0 million including the value of all outstanding options. The transaction was completed on 27 July 2009.

B. Acquisition of Compuware Testing and ASQ Business
The Company announced on 6 May 2009, that it had reached agreement to acquire the suite of Application Testing/Automated Software Quality (ASQ) solutions and all related sales, support and development infrastructure (together being the Compuware Testing and ASQ Business) from Compuware Corporation ('Compuware') for a total gross cash consideration of $80.0 million. The transaction was completed on 29 May 2009.

In accordance with IFRS 3, the directors will assess the fair value of the net assets acquired for both acquisitions as further information becomes available. It is impracticable to provide full disclosure of these acquisitions at present.

C. Bank facilities
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.

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 2009 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 49, 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 Sections 495 to 497 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 2009;
- 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.

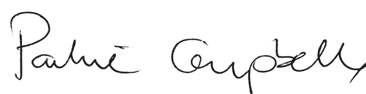
Opinion on other matters prescribed by the Companies Act 2006
In our opinion:

- 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 2009.



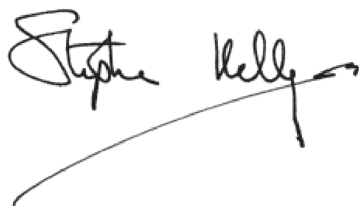
Pauline Campbell (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Reading
12 August 2009

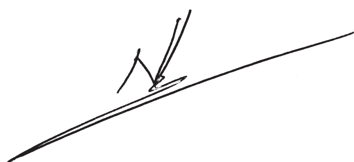
Company balance sheet

as at 30 April 2009

	Note	2009 $'000	2008 restated $'000
ASSETS			
Fixed assets			
Investments in subsidiary undertakings	V	**54,111**	27,873
		54,111	27,873
Current assets			
Deferred tax assets		**373**	322
Debtors	VI	**128,126**	130,676
Cash at bank		**5,619**	3,382
		134,118	134,380
Creditors: amounts falling due within one year	VII	**4,420**	2,806
Net current assets		**129,698**	131,574
Net assets		**183,809**	159,447
EQUITY			
Share capital	VIII	**37,092**	36,837
Share premium	IX	**102,825**	100,528
Profit and loss account	X	**43,892**	22,082
Equity shareholders' funds		**183,809**	159,447

The Company financial statements on pages 80 to 84 were approved by the board of directors on 12 August 2009 and were signed on its behalf by:





Stephen Kelly
Chief Executive Officer

Nick Bray
Chief Financial Officer

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 Group's financial statements in the period in which the dividends are approved by the Company's shareholders.

E Taxation

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

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 profits 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.

II Profit attributable to the Company

As permitted by Section 230 of the Companies Act 1985, no separate profit and loss account is presented in respect of the Company.

The profit for the financial year before dividends for the Company was $46.3 million (2008: profit $20.7 million).

III Employees and directors

Staff costs for the Company during the year

	2009 $'000	2008 $'000
Wages and salaries	**2,927**	3,536
Social security costs	**440**	360
Other pension costs	**45**	67
Cost of employee share schemes	**682**	550
Total	**4,094**	4,513

The average monthly number of employees of the Company, including remunerated directors, during the year was six (2008: eight). For further information on the directors of the Company please refer to the remuneration report on pages 42 to 47.

IV Dividends

A final dividend in respect of the year ended 30 April 2008 of 9.4 cents per share was proposed and paid during the year ($17.6 million in total). In addition, an interim dividend in respect of the year ended 30 April 2009 of 4.5 cents per share ($8.5 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 2009 of 11.1 cents per share, which would reduce shareholders' funds by $22.4 million. The proposed dividend is subject to approval at the AGM on 24 September 2009.

V Investments in subsidiary undertakings

	2009 $'000
At 1 May 2008	27,873
Additions	26,238
At 30 April 2009	**54,111**

At 30 April 2009, the Company held directly or indirectly 100% of the ordinary share capital of the following principal subsidiary undertakings. Only Micro Focus Holdings Limited is directly owned by the Company with all other subsidiaries being indirectly owned.

Company name	Country of incorporation	Principal activities
Micro Focus AG	Switzerland	Sale and support of software
Micro Focus APM Solutions EOOD	Bulgaria	Development and support of software
Micro Focus APM Solutions SpA	Italy	Holding company, sale and support of software
Micro Focus AS	Norway	Sale and support of software
Micro Focus (Canada) Limited	Canada	Sale and support of software
Micro Focus GmbH	Germany	Sale and support of software
Micro Focus Group Holdings	Ireland	Holding company
Micro Focus Holdings Limited	UK	Holding company
Micro Focus India Private Limited	India	Sale and support of software
Micro Focus International Limited	Cayman Islands	Holding company
Micro Focus International Holdings Limited	Ireland	Sale and support of software
Micro Focus (IP) Limited	UK	Sale and support of software
Micro Focus Israel Limited	Israel	Development, sale and support of software
Micro Focus KK	Japan	Sale and support of software
Micro Focus Limited	UK	Development, sale and support of software
Micro Focus NV	Belgium	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 Software Shanghai Co. Limited	PRC	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
Liant Software Corporation	USA	Sale and support of software
Relativity Technologies, Inc	USA	Sale and support of software

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

VI Debtors

	2009 $'000	2008 $'000
Amounts due from Group undertakings	**127,726**	130,493
Other debtors	**213**	139
Prepayments	**187**	44
Total	**128,126**	130,676

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

VII Creditors: amounts falling due within one year

	2009 $'000	2008 $'000
Trade payables	**366**	562
Taxation and social security	**72**	89
Amounts payable to Group undertakings	**2,256**	230
Accruals	**1,726**	1,925
Total	**4,420**	2,806

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

VIII Called up share capital

	2009 $'000	2008 $'000
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

	2009 Number	2009 $	2008 Number	2008 $
Issued and fully paid				
Ordinary shares of £0.10 each	**202,111,131**	**37,091,806**	200,430,656	36,836,791
Total allotted, called up and fully paid share capital	**202,111,131**	**37,091,806**	200,430,656	36,836,791

Further information on share capital is provided in note 20 and 23 of the Group accounts.

IX Share premium account

	2009 $'000	2008 $'000
At 1 May 2008	**100,528**	100,678
Movement in relation to share options exercised	**2,297**	(150)
At 30 April 2009	**102,825**	100,528

X Company statement of changes in shareholders' equity

	Share capital $'000	Share premium $'000	Restated profit and loss account $'000	Total $'000
Balance as at 1 May 2007	**36,767**	**100,678**	**20,929**	**158,374**
Profit for the year	–	–	20,732	20,732
Dividends	–	–	(21,229)	(21,229)
Issue of share capital	70	–	–	70
Movement in relation to share options	–	(150)	1,487	1,337
Deferred tax on share options	–	–	163	163
Total changes in shareholders' equity	70	(150)	1,153	1,073
Balance as at 30 April 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**

In previous years an error was made in relation to accounting for the share option reserve, which resulted in an understatement of profit and an overstatement of creditors. The profit for the year to 30 April 2008 has been restated from $19,434,000 to $20,732,000. Cumulative profits for years to 30 April 2007 have been increased by $1,009,000.

XI Capital commitments and contingent liabilities
The Company had no capital commitments or contingent liabilities at 30 April 2009 (2008: nil).

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

Europe & Middle East
UK – head office
The Lawn
22-30 Old Bath Road
Newbury RG14 1QN
T: +44 (0) 1635 32646
F: +44 (0) 1635 33966

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

Bulgaria
76 James Bautcher Blvd
Lozenetz
Sofia 1407
T: +359 2 987 7880

Denmark
Sluseholmen 2-4
Copenhagen SV 2450
T: +45 3694 4500

Finland
Luna House
Mannerheimintie 12
Helsinki FIN-00100
T: +358 9 2516 600

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

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

Israel
Matam – Advance Tech Center
Building 3/1
Haifa 31 904
T: +972 (0) 4813 0501

Italy
Via Ugo Bassi 8/a
Milan 20159
T: +39 02 69 43401

Piazza Guglielmo Marconi 15
Rome 00144
T: +39 06 32 803663

The Netherlands
Antareslaan 37
2132 JE Hoofddorp
Amsterdam
T: +31 (0) 23 554 0640

Norway
C.J. Hambros Plass 2C
1st Floor
Oslo 0164
T: +47 2291 0720

Portugal
Centio Empresarial
Torres De Lisboa
Rue Tomas Da Fonseca Torre
Lisbon 1600-209
T: +351 21 723 0726

Spain
Paseo de la Castellana 141
7th Floor
Madrid 28046
T: +34 91 572 6699

Sweden
Master Samuelsgatan 60
8th Floor
Stockholm SE 111 21
T: +46 8 505 16529

Switzerland
Suite 4, Thurgauerstrasse 40
8050 Zurich
T: +41 307 35 55

North America
USA – regional head office
9420 Key West Avenue
Rockville
Maryland 20850
T: +1 800 872 6265
+1 301 838 5000
F: +1 301 838 5314

5914 West Courtyard Drive
Suite 100
Austin
Texas 78730
T: +1 512 371 7028

One Lincoln Center
18 West 140 Butterfield Road
Oakbrook Terrace
Chicago
Illinois 60181
T: +1 630 613 7370

1431 Greenway Drive
Suite 800
Irving
Texas 75038
T: +1 972 815 2368

2171 Landings Drive
Mountain View
California 94043
T: +1 650 930 2200

9920 Pacific Heights Blvd
San Diego
California 92121
T: +1 858 795 1900

Canada
469 Jean Talon West
Suite 306
Montreal H3N 1R4
T: +1 800 632 6265

2 Gurdwara Road
Ottowa K2E 1A2
T: +1 613 727 1779

Mexico
Av. Insurgentes Sur 1898
Col. La Florida
Mexico City 01020
T +52 55 9171 1000

Rest of the World
Australia
Suite 211
530 Little Collins Street
Melbourne
Victoria 3000
T: +61 (0) 3 9526 2900

Level 1, 845 Pacific Highway
Chatswood, Sydney
New South Wales 2067
T: +61 (0) 2 9904 6111

Brazil
Av. das Nacoes Unidas, 12551
9th and 17th Floor, Brooklin Novo
São Paulo 04578-000
T: +55 (11) 3443 7431

China
Two Exchange Square
8 Connaught Place Central
Hong Kong
T: +852 2168 0600

1 Huaihai Zhong Road
Suite 2207, Liulin Plaza
Shanghai 200021
T: +86 21 6386 6001

India
Elegance Level 2
Mathura Road
Jasola
New Delhi 110025
T: +91 11 4060 1560

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

Singapore
One Raffles Quay
Level 25, North Tower
Singapore 048583
T: +65 6622 5888

Historical summary

	Year to 30 April 2005 $'000	Year to 30 April 2006 $'000	Year to 30 April 2007 $'000	Year to 30 April 2008 $'000	Year to 30 April 2009 $'000
Results					
Revenue	150,645	143,688	171,590	228,196	**274,731**
Operating profit before exceptional items	44,308	37,167	62,128	81,294	**106,118**
Exceptional items	(3,394)	(14,434)	(4,861)	(6,502)	**(14,907)**
Operating profit	40,914	22,733	57,267	74,792	**91,211**
Profit before tax	32,640	22,558	60,007	76,823	**91,449**
Earnings per share					
Basic (cents)	14.28	8.25	21.96	27.67	**32.87**
Diluted (cents)	13.98	8.17	21.37	26.97	**31.92**

Directors, Secretary, registered office and advisers

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

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

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

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

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

Additional information

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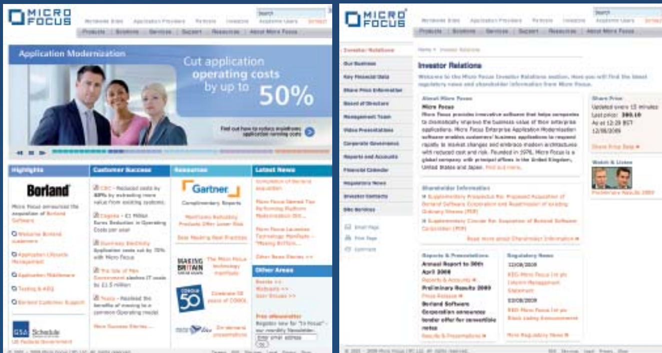

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Micro Focus International plc

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

Tel: +44 (0) 1635 32646
Fax: +44 (0) 1635 33966
www.microfocus.com

Registered No. 5134647