

# Directors' report

The directors of Micro Focus International Plc ("the Company") present their report and the audited financial statements of the Company for the year ended 30 April 2006.

On 17 May 2005 (immediately prior to the IPO) the Company became the holding company of the Group by acquiring the entire share capital of Micro Focus International Limited (the "Operating Company") in a share-for-share exchange, pursuant to which the previous shareholders of the Operating Company were issued and allotted three ordinary shares in the capital of the Company for every one ordinary share they previously held in the Operating Company. On 17 May 2005 the ordinary shares of the Company were admitted to the Official List and to the London Stock Exchange to be traded on its main market for listed securities.

The consolidated financial statements and information in the directors' report and remuneration report therefore represent the performance of the Group previously headed by the Operating Company (the "Operating Group") for the period up to 17 May 2005 and for the Group from this date to 30 April 2006. On admission, the Company adopted the policies and procedures of the Operating Group.

## Principal activities

The principal activities of the Group during the year were the provision of legacy application development and deployment software for contemporary platforms.

The Company is limited by shares and is domiciled and incorporated in the United Kingdom. The Operating Company was incorporated and domiciled in the Cayman Islands. The registered office of the Company is:

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

## Review of business and future developments

For details regarding the Group's activity and the future developments of the Group, please refer to the Chief Executive Officer's business review on page 5 and the Chief Financial Officers' review on pages 8 and 9.

## Dividends

The board has adopted a progressive dividend policy reflecting the long-term earnings and cash flow potential of Micro Focus whilst targeting a level of dividend cover for the financial year ended 30 April 2006 of approximately 2.5 times on a pre-exceptional earnings basis. In line with the above policy announced at the time of the IPO the directors recommend payment of a final dividend in respect of 2006 of 4 cents per share, which, taken together with the interim dividend of 2 cents per share paid in January 2006, gives a total dividend in respect of 2006 of 6 cents per share. Subject to shareholder approval, the final dividend will be paid on 2 October 2006 to shareholders on the register on 8 September 2006.

Dividends will be paid in sterling based on an exchange rate of 1.82 US\$/£, equivalent to approximately 2.2 pence per share, being the rate applicable on 28 June 2006, the date of recommendation of the dividend by the board.

## Research and development

For information on the activities of the development team please refer to a view of our market on pages 6 and 7.

## Donations

The Company's policy is to make no donations to political parties. The Group made no charitable or political donations during the year (2005: nil).

## Post balance sheet events

There are no significant post balance sheet events.

## Directors and their interests

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

### Executive

Stephen Kelly	(appointed 1 May 2006)
Nick Bray	(appointed 3 January 2006)
Dr Anthony Hill	(resigned 23 February 2006)
Richard Lloyd	(resigned 3 January 2006)

### Non-executive

Kevin Loosemore	(Chairman)*
Prescott Ashe	
David Dominik	
David Maloney	
John Browett	(appointed 1 July 2005)

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

Details of the interests of the directors and their families in the ordinary shares of the Company, as disclosed in the register of directors' interests, are given in the remuneration report on pages 20 to 25.

None of the directors has a material interest in any contract of significance to which the parent company or a subsidiary was a party during the financial year, 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 whilst acting as directors and officers.

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

## Employment policy

### *Equal opportunities*

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

### *Disabled employees*

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

### *Employee involvement*

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

### *Further education and training*

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

## Share option schemes

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

## Payment of creditors

The Company 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 2006 for the Group was 30 days (2005: 31 days).

## Substantial shareholding

As at 31 July 2006 the Company had been notified in accordance with Sections 198 to 208 of the Companies Act 1985, of the following interests of more than 3% in the ordinary share capital of the Company:

Name of holder	Ordinary shares of 10 pence each	Percentage of issued capital
Golden Gate Capital	114,026,157	57.14%
The Goldman Sachs Group, Inc	9,983,284	5.00%
Morgan Stanley Securities Ltd	7,480,349	3.75%
Lansdowne Partners Ltd	5,985,000	3.00%

## Annual General Meeting

The notice convening the Annual General Meeting of the Company together with the explanatory notes on the proposed resolutions accompanies this report. The meeting will be held at The Lawn, 22-30 Old Bath Road, Newbury, Berkshire RG14 1QN on 27 September 2006 at 1pm.

## 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 a director 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 Annual General Meeting.

## Going concern

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

By order of the board



**Jane Smithard** *Company Secretary*

31 July 2006