

Notes to the financial statements

for the year ended 30 April 2006

1 Segmental reporting

Primary reporting format – geographical segments

	Year ended 30 April 2006			
	North America \$'000	Europe and the Middle East \$'000	Rest of the world \$'000	Total \$'000
Revenue	68,847	54,038	20,803	143,688
Segment result (operating profit) before exceptional items	26,474	1,441	9,031	36,946
Exceptional items	(1,683)	(12,444)	(86)	(14,213)
Segment result (operating profit)	24,791	(11,003)	8,945	22,733
Finance costs – net				(175)
Profit before tax				22,558
Taxation				(6,332)
Net profit attributable to equity shareholders				16,226
Segment assets	36,812	51,427	8,173	96,412
Unallocated assets:				
Intangible assets (notes 9 and 10)				50,041
Deferred tax assets (note 20)				7,718
Total assets				154,171
Segment liabilities	31,241	40,720	5,275	77,236
Unallocated liabilities:				
Current and deferred tax liabilities				19,223
Corporate borrowings (note 17)				211
Total liabilities				96,670
Other segment items				
Capital expenditure	78	519	61	658
Depreciation (note 11)	494	459	53	1,006
Amortisation of intangible assets (note 10)	2,608	2,065	760	5,433

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1 Segmental reporting (continued)

	Year ended 30 April 2005			Total \$'000
	North America \$'000	Europe and the Middle East \$'000	Rest of the world \$'000	
Revenue	73,173	57,365	20,107	150,645
Segment result (operating profit) before exceptional items	27,796	10,183	9,910	47,889
Exceptional items	(4,180)	(2,157)	(638)	(6,975)
Segment result (operating profit)	23,616	8,026	9,272	40,914
Finance costs – net				(8,274)
Profit before tax				32,640
Taxation				(11,597)
Net profit attributable to equity shareholders				21,043
Segment assets	34,141	45,181	6,419	85,741
Unallocated assets:				
Intangible assets (notes 9 and 10)				50,488
Deferred tax assets (note 20)				8,331
Total assets				144,560
Segment liabilities	38,396	34,960	4,679	78,035
Unallocated liabilities:				
Current and deferred tax liabilities				19,720
Corporate borrowings (note 17)				111,466
Total liabilities				209,221
Other segment items				
Capital expenditure	65	461	2	528
Depreciation	574	370	61	1,005
Amortisation of intangible assets	2,762	2,166	759	5,687

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

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

There are immaterial sales between the geographical segments.

The revenue analysis in the table above is based on the location of the customers where the order is received which is not materially different from the location of the assets.

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

Secondary reporting format – business segment

The Group considers there is only one business segment being the provision of legacy application development and deployment software for contemporary platforms.

2 Supplementary information

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

	30 April 2006 \$'000	30 April 2005 \$'000
Licence	67,985	79,860
Maintenance	71,860	66,705
Consulting	3,843	4,080
Total	143,688	150,645

3 Profit before tax

Profit before tax is stated after charging:

		Year ended 30 April	
	Note	2006 \$'000	2005 \$'000
Employee benefit expense	24	63,221	70,340
Depreciation of property, plant and equipment			
– owned assets	11	880	1,024
– assets under finance lease	11	126	35
Amortisation of intangibles	10	5,433	5,687
Changes in inventories of finished goods		19	(38)
Operating lease rentals payable			
– plant and machinery		252	116
– other		337	4,092

Exceptional items

		Year ended 30 April	
		2006 \$'000	2005 \$'000
IPO-related costs		6,909	–
Management fees		125	1,200
Reorganisation costs		7,403	2,194
Share-based compensation (credit)/charge		(224)	3,581
Exceptional items		14,213	6,975

The IPO-related costs include termination fees of \$4,683,000 in respect of management charges previously paid by the Group to its shareholders prior to the IPO. They also include fees incurred during the process that did not directly relate to the raising of share capital.

Reorganisation costs relate to the cost reduction programme announced by the board of directors on 6 April 2006. These costs include those associated with the redundancy of employees and the onerous lease cost of a building vacated as part of the programme.

A credit has arisen for share-based compensation as a result of the actual payout under the Equity Bonus Plan being lower than the estimate made at 30 April 2005.

All exceptional items relate to administrative expenses.

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3 Profit before tax (continued)

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

During the year the Group (including its overseas subsidiaries) obtained the following services from the Group's auditor at costs as detailed below:

	Year ended 30 April	
	2006 \$'000	2005 \$'000
Audit services		
– statutory audit	459	530
– further assurance services	–	670
Tax services		
– compliance services	45	161
– advisory services	210	1,278
Other services not covered above	212	1,962
Total	926	4,601

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

Other services include reporting accountants work and due diligence.

4 Reconciliation of operating profit to EBITDA

	30 April 2006 \$'000	30 April 2005 \$'000
Operating profit	22,733	40,914
Depreciation	1,006	1,005
Amortisation of software	806	1,099
EBITDA	24,545	43,018
Exceptional items		
IPO-related costs	6,909	–
Reorganisation costs	7,403	2,194
Share-based compensation	(224)	3,581
Management charges	125	1,200
EBITDA before exceptional items	38,758	49,993

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

5 Interest payable and similar charges

	Year ended 30 April	
	2006 \$'000	2005 \$'000
Interest expense on bank borrowings	1,126	5,062
Interest expense on finance leases	11	19
Interest payable	1,137	5,081
Amortisation of issue costs	–	224
Accelerated amortisation of issue costs	–	3,351
	1,137	8,656

The accelerated amortisation of issue costs relates to the prior-year borrowings described in note 17. The amortisation of issue costs was accelerated during the prior year, as a result of the facilities being initially replaced by a new facility and then being repaid from the proceeds of the listing of the Company.

6 Taxation

	Year ended 30 April	
	2006 \$'000	2005 \$'000
Current tax		
Current year	5,159	7,825
Adjustments to tax in respect of previous years	(138)	–
	5,021	7,825
Deferred tax		
Current year	1,500	3,983
Adjustments to tax in respect of previous years	(189)	(211)
	1,311	3,772
Total	6,332	11,597

Deferred tax of \$109,000 (2005: \$nil) has been recognised in relation to the share options charged against equity in the year.

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

	Year ended 30 April	
	2006 \$'000	2005 \$'000
Profit before taxation	22,558	32,640
Tax calculated at domestic tax rates applicable to profits in the respective countries	7,182	11,152
Effects of:		
Adjustments to tax in respect of previous years – current tax	(138)	–
Adjustments to tax in respect of previous years – deferred tax	(189)	(211)
Expenses not deductible for tax purposes	2,746	84
Losses not recognised	247	–
Other	(3,516)	572
Total taxation	6,332	11,597

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

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for the year ended 30 April 2006

7 Dividends

	Year ended 30 April	
	2006 \$'000	2005 \$'000
Equity – ordinary		
2006 interim paid (\$0.02 per ordinary share)	3,987	–
2005 final paid (\$0.28 per ordinary share)	–	10,000
2005 interim paid (\$1.36 per ordinary share)	–	68,800
	3,987	78,800

Under Cayman Law the unrealised profit on the revaluation of an asset may be used to fund a dividend. As such the directors of Micro Focus International Limited obtained independent valuations of the intellectual property held by that company in 2003 and 2005. Subsequently, the directors considered the valuations of the intellectual property, which confirmed the adequacy of distributable reserves under Cayman Law in proposing dividends in the year ended 30 April 2005.

Whilst the Group as a whole has a deficit in its profit and loss reserve, the directors of Micro Focus International Plc have concluded that the Company has sufficient reserves to enable the payment of the interim and final dividends relating to the year ended 30 April 2006.

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. This is after taking into account the restructuring of the share capital of previous shareholders of the Operating Company receiving three ordinary shares in the Company for every one share they previously held in the Operating Company.

	Year ended 30 April 2006			Year ended 30 April 2005		
	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	16,226	196,709	8.25	21,043	147,375	14.28
Effect of dilutive securities						
Options		2,002			3,162	
Diluted EPS						
Earnings attributable to ordinary shareholders	16,226	198,711	8.17	21,043	150,537	13.98
Supplementary EPS to exclude exceptional items						
Basic EPS	16,226	196,709	8.25	21,043	147,375	14.28
Exceptional items	14,213			6,975		
Tax relating to exceptional items	(2,154)			(658)		
Basic EPS excluding exceptional items	28,285	196,709	14.38	27,360	147,375	18.56
Diluted EPS	16,226	198,711	8.17	21,043	150,537	13.98
Exceptional items	14,213			6,975		
Tax relating to exceptional items	(2,154)			(658)		
Diluted EPS excluding exceptional items	28,285	198,711	14.23	27,360	150,537	18.17

9 Goodwill

	\$'000
Cost and net book amount	
At 1 May 2004, 30 April 2005 and 30 April 2006	42,404

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

	\$'000
North America	24,200
Europe and the Middle East	14,765
Rest of the world	3,439
Total	42,404

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

For the purpose of the analysis of each CGU within the business segment it has been assumed that the levels of turnover, operating profit and cash flows for the year ended 30 April 2006 will be maintained.

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

10 Other intangible assets

	Software \$'000	Development costs \$'000	Total \$'000
Cost			
At 1 May 2005	4,052	16,017	20,069
Exchange adjustments	(247)	–	(247)
Additions	88	5,095	5,183
At 30 April 2006	3,893	21,112	25,005
Aggregate amortisation and impairment			
At 1 May 2005	2,664	9,321	11,985
Exchange adjustments	(40)	–	(40)
Charge for the year	798	4,626	5,424
At 30 April 2006	3,422	13,947	17,369
Net book amount at 30 April 2006	471	7,165	7,636
Net book amount at 1 May 2005	1,388	6,696	8,084

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11 Property, plant and equipment

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

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

	2006 \$'000	2005 \$'000
Cost	368	251
Aggregate depreciation	(161)	(35)
Net book amount	207	216

12 Inventories

	2006 \$'000	2005 \$'000
Finished goods	331	350

13 Trade and other receivables

	2006 \$'000	2005 \$'000
Trade debtors	29,377	37,128
Other debtors	–	3,575
Prepayments	3,959	3,837
Accrued income	4,293	5,704
Total	37,629	50,244

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

14 Cash and cash equivalents

	2006 \$'000	2005 \$'000
Cash at bank and in hand	15,182	24,557
Short-term bank deposits	40,884	8,313
Total	56,066	32,870

The effective interest rate on short-term deposits was 3.8% (2005: 2.4%) and these deposits have an average maturity of 13 days (2005: 11 days).

15 Trade and other payables – current

	2006 \$'000	2005 \$'000
Trade payables	1,944	3,860
Other tax and social security payable	2,468	3,241
Accruals	20,511	17,585
Deferred income	45,593	46,417
Total	70,516	71,103

Accruals include amounts in respect of reorganisation and redundancy costs. The amount provided for redundancy costs is based on legal advice provided to the directors.

16 Current tax liabilities

	2006 \$'000	2005 \$'000
Corporation tax	10,777	11,972

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17 Financial liabilities – borrowings

	2006 \$'000	2005 \$'000
Due within one year		
Secured bank loans	–	8,010
Finance lease obligations	117	89
Total	117	8,099

	2006 \$'000	2005 \$'000
Due after more than one year		
Secured bank loans	–	103,240
Finance lease obligations	94	127
Total	94	103,367

On 20 May 2005 the outstanding debt of \$111,250,000 owed by the Company to Wells Fargo Foothill, Inc. and DB Zwirn Special Opportunities Fund was repaid in full.

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

	2006 \$'000	2005 \$'000
Finance lease liabilities – minimum lease payments:		
Not later than one year	134	107
More than one year, but not more than two years	109	154
	243	261
Future finance charges on finance leases	(32)	(45)
Present value of finance lease liabilities	211	216

18 Other non-current liabilities

	2006 \$'000	2005 \$'000
Deferred income	6,720	6,932

19 Financial instruments

Fair value of non-current borrowings

Fair value is the amount at which a financial instrument could be exchanged in an arm's length transaction between informed and willing parties, other than a forced or liquidation sale and excludes accrued interest. The Group's financial liabilities at 30 April 2006 are deemed to be equal to their fair value at that date.

Maturity of non-current borrowings

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

	2006 \$'000	2005 \$'000
Between one and two years	94	10,109
Between two and five years	–	93,258
	94	103,367

On 20 May 2005 the loan was repaid in full from the proceeds of the admission of the Company on to the Official list of the London Stock Exchange.

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

US Dollar	2006	2005
Bank borrowings	–	11.5%
Finance lease obligations	8.5%	8.5%

20 Deferred tax

	2006 \$'000	2005 \$'000
Net deferred tax asset/(liability)		
Beginning of the year	583	(984)
Income statement charge	(1,311)	1,567
End of the year	(728)	583

	Accelerated tax depreciation \$'000	Total \$'000
Deferred tax liabilities		
At 1 May 2005	7,748	7,748
Charged to profit and loss account	698	698
At 30 April 2006	8,446	8,446

	Tax losses \$'000	Other timing differences \$'000	Total \$'000
Deferred tax assets			
At 1 May 2005	6,203	2,128	8,331
Charged to profit and loss account	169	(782)	(613)
At 30 April 2006	6,372	1,346	7,718

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.

Micro Focus International Plc

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21 Called up share capital

	2006 \$	2005 \$
Authorised		
2,499,500,000 ordinary shares of £0.10 (\$0.183) each	476,674,646	–
50,000 redeemable preference shares of £1.00 (\$1.83) each	95,354	–
Class A ordinary shares of \$0.00001 each	–	86,428,000
Class B ordinary shares of \$0.00001 each	–	2,800,000
Class C ordinary shares of \$0.00001 each	–	1,386,000
Class D ordinary shares of \$0.00001 each	–	1,386,000
Class L ordinary shares of \$0.00001 each	–	8,000,000
Total authorised share capital	476,770,000	100,000,000

	30 April 2006		30 April 2005	
	Number	\$	Number	\$
Issued and fully paid				
Ordinary shares of £0.10 (\$0.183) each	199,402,745	36,644,393	–	–
Class A ordinary shares of \$0.00001 each	–	–	41,426,245	1
Class B ordinary shares of \$0.00001 each	–	–	2,169,375	–
Class C ordinary shares of \$0.00001 each	–	–	1,386,000	–
Class D ordinary shares of \$0.00001 each	–	–	–	–
Class L ordinary shares of \$0.00001 each	–	–	4,143,291	–
Total allotted, called up and fully paid share capital	199,402,745	36,644,393	49,124,911	1

The share capital at 30 April 2005 represents the share capital of Micro Focus International Limited, a company incorporated in the Cayman Islands. On 9 May 2005 425 class A ordinary shares in that company were issued in that company under the share option programme in note 24, leaving a total of 49,125,336 shares issued in the company on 16 April 2005.

On 17 May 2005, the Company acquired the entire issued share capital of Micro Focus International Limited by way of a share-for-share exchange, pursuant to which the previous shareholders of Micro Focus International Limited were issued and allotted three ordinary shares in the capital of the Company for every one ordinary share they previously held in Micro Focus International Limited. This increased the share capital of the Group to 147,376,009 shares of £0.10 each. This increase in share capital created a merger reserve of \$27,085,000. On 17 May 2005, 51,069,602 new ordinary shares in the capital of the Company were issued to institutional investors for a price of £1.30 (\$2.24) per share as part of the IPO and these shares, as well as the Company's existing ordinary shares, were admitted to the Official List and to the London Stock Exchange to be traded on its main market for listed securities. Expenses of \$4,769,000 directly attributable to the issue of share capital were offset against the share premium account.

Following the IPO, 957,134 ordinary shares have been issued in the Company. Of this, 872,519 have been issued to employees under share option schemes at prices ranging from £0.003 (\$0.005) and £0.17 (\$0.36) per share and 84,615 have been issued to directors for a price of £1.30 (\$2.24) per share.

Potential issues of ordinary shares

Certain employees hold options to subscribe for shares in the Company at prices ranging from \$0.02 to \$1.62 under the share option schemes approved by shareholders in 2001 and the Long-Term Incentive Plan. The number of shares subject to options at 30 April 2006 was 3,552,845. Further information on these options is disclosed in note 24.

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

22 Share premium account

	\$'000
At 1 May 2005	3,376
Premium on shares issued during the year	100,265
At 30 April 2006	103,641

23 Cash generated from operations

	Note	2006 \$'000	2005 \$'000
Continuing operations			
Net profit		16,226	21,043
Adjustments for:			
Net interest		175	8,274
Taxation	6	6,332	11,597
Depreciation	11	1,006	1,005
Loss on disposal of property, plant and equipment		17	19
Amortisation of intangibles	10	5,433	5,687
Share-based compensation		(224)	3,581
Changes in working capital:			
Inventories		19	(38)
Trade and other receivables		12,615	(12,317)
Payables and other non-current liabilities		371	15,610
Cash generated from continuing operations		41,970	54,461

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24 Employees and directors

	2006 \$'000	2005 \$'000
Staff costs		
Wages and salaries	56,026	59,257
Social security costs	5,538	5,769
Other pension costs (note 25)	1,881	1,733
Cost of employee share schemes	(224)	3,581
Total	63,221	70,340

	2006	2005
Average monthly number of people (including executive directors) employed		
By business group		
Sales and distribution	193	182
Research and development	147	143
General and administration	162	158
Total	502	483

Share-based payments

The Group has four equity-settled share-based compensation plans and one cash-settled share-based compensation plan, details of which are provided below.

2001 Share Purchase and Option Plan

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

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

	Options	Range of exercise prices \$	Weighted average exercise price \$	Weighted average remaining life (years):	
				2006 Expected	2005 Contractual
At 1 May 2005	1,054,160	0.02 – 1.62	0.24	0.1	3.8
Exercised	(425)		0.02		
Forfeited	(32,200)		0.02		
At 16 May 2005 pre split	1,021,535		0.24		
3:1 stock split	2,043,070				
At 17 May 2005	3,064,605	0.01 – 0.54	0.08		
Exercised	(866,369)		0.06		
Forfeited	(107,739)		0.08		
At 30 April 2006	2,090,497	0.01 – 0.54	0.09	0.0	2.8

24 Employees and directors (continued)

The weighted average share price for options exercised during the period was \$1.27.

Of the 2,090,497 options over ordinary shares outstanding at 30 April 2006, 1,956,660 had an exercise price in the range of \$0.01 and \$0.13 per share and 133,837 had an exercise price in the range of \$0.31 and \$0.54 per share.

No amount was charged through the income statement (2005: £1,504,000).

Restricted Share Agreement

The Group also operated a share-based compensation plan ("the Agreement") under which senior management could be granted options to purchase the Company's ordinary shares. There were no options over ordinary shares held by employees under the Restricted Share Agreement at any time during the year ended 30 April 2006 and no amount was charged through the income statement (2005: \$137,000).

Share issue

The Group also operated a share-based compensation plan under which senior management was granted ordinary shares in the Company. On the full listing of the Company to the London Stock Exchange the Plan was closed for new issues. During the year ended 30 April 2006 no options to subscribe for shares were issued under this arrangement and no amount was charged through the income statement (2005: \$1,407,000).

Equity Bonus Plan

The Group also operated the Equity Bonus Plan, a cash-settled share-based compensation plan. Under the rules of the Equity Bonus Plan eligible employees were awarded Equity Bonus Units at the discretion of the board of directors. On the full listing of the Company to the London Stock Exchange units were paid out under the Plan. The amount of any realisation payment for each unit was dependent on the market value of one of the Company's ordinary shares ("the Sale Price"), compared to the unit's Base Price, which was calculated at the time of award of the unit with reference to the market value of the Company's shares. The bonus awarded was the difference between the Sale Price and Base Price, subject to an overall limit on the Sale Price of ten times the Base Price.

The amount credited through the income statement in relation to the Equity Bonus Plan for the period ended 30 April 2006 was \$587,000 (2005: (charge) \$533,000). The credit has arisen due to the fact that the estimates of the cash payments made in the prior year have proven to be in excess of the actual payouts on the closure of the scheme.

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24 Employees and directors (continued)

Incentive Plan 2005

On 27 April 2005 the remuneration committee approved the rules of the Incentive Plan 2005. Under the terms of the first grant of options under the Plan on 29 June 2005 five employees were granted options over a total of 200,000 shares under the Plan for their part in the IPO. These options will vest after a three-year period. Under the terms of the second grant of options under the Plan on 11 January 2006 directors and senior management were eligible. The total number of options they will receive is determined by the Company's aggregate earnings per share (EPS) growth, exceeding inflation (RPI), over a three-year period commencing 1 May 2005. The total number of potential options as a result of the second grant under the Plan (assuming the maximum performance target is attained) was 1,462,348.

Options issued under the Agreement have been valued using the Black-Scholes option-pricing model. No performance conditions were included in the fair value calculations. The fair value per option granted and the assumptions used in the calculation are as follows:

Grant date	29 June 2005	11 January 2006
Share price at grant date	£1.55 (\$2.80)	£1.23 (\$2.25)
Exercise price	£0.10 (\$0.18)	£0.10 (\$0.18)
Expected volatility	80%	80%
Expected option life (years)	3	3
Expected dividend yield	1%	2.7%
Risk-free interest rate	4%	4%
Fair value per option	\$1.74	\$1.92

The amount charged to the income statement in the year in respect of the scheme is \$363,000.

25 Pension commitments

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

Pension costs for defined contributions schemes are as follows:

	2006 \$'000	2005 \$'000
Defined contribution schemes	1,881	1,733

26 Operating lease commitments – minimum lease payments

At 30 April 2006 the Group has total lease agreements in respect of properties, vehicles, plant and equipment, for which the payments extend over a number of years.

	2006 \$'000	2005 \$'000
Commitments under non-cancellable operating leases expiring:		
Within one year	526	398
Later than one year and less than five years	4,060	8,166
After five years	16,582	2,094
Total	21,168	10,658

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

27 Capital commitments and contingent liabilities

The Group had no capital commitments at 30 April 2006. The Group had no contingent liabilities at 30 April 2006.

28 Related party transactions

During the period to 30 April 2006, management charges of \$125,000 and termination charges of \$4,026,046 were paid to a related party, Golden Gate Capital, which is the fund manager for CCG Investments (BVI), LP, the ultimate parent company.

The interests of Golden Gate Capital, through CCG Investments (BVI), LP and other funds under its management, in the Company's ordinary shares are as follows:

	Ordinary shares of Micro Focus International Plc	Shares in Micro Focus International Limited	
		A Shares	L Shares
At 1 May 2005	–	35,903,620	4,143,291
Share-for-share exchange prior to IPO	120,140,733	(35,903,620)	(4,143,291)
Disposals	(6,114,576)	–	–
At 30 April 2006	114,026,157	–	–

Termination charges of \$656,959 were also paid to another related party, Parallax Capital Partners LLC, which is a minority shareholder.

Notes to the financial statements

for the year ended 30 April 2006

29 Reconciliation of net assets and profit under UK GAAP to IFRS

The analysis below shows a reconciliation of net assets and profit as reported under UK GAAP as at 30 April 2005 to the revised net assets and profit under IFRS as reported in these financial statements. In addition, there is a reconciliation of net assets under UK GAAP to IFRS at the transition date for the Group, being 1 May 2004.

Reconciliation of equity at 1 May 2004 (date of transition to IFRS)

	Note	UK GAAP \$'000	Effect of transition to IFRS \$'000	IFRS \$'000
Assets				
Non-current assets				
Goodwill		42,404	–	42,404
Intangible assets	(b),(c)	–	7,628	7,628
Property, plant and equipment	(c)	4,115	(2,155)	1,960
Deferred tax assets	(a),(b)	–	8,837	8,837
		46,519	14,310	60,829
Current assets				
Inventories		312	–	312
Trade and other receivables		37,925	–	37,925
Investments	(d)	7,166	(7,166)	–
Cash and cash equivalents	(d)	17,254	7,166	24,420
Deferred tax asset	(a),(b)	5,998	(5,998)	–
		68,655	(5,998)	62,657
Total assets		115,174	8,312	123,486
Liabilities				
Current liabilities				
Trade and other payables		53,736	–	53,736
Current tax liabilities		9,821	–	9,821
Financial liabilities – borrowings		10,097	–	10,097
		73,654	–	73,654
Non-current liabilities				
Financial liabilities – borrowings		50,037	–	50,037
Deferred tax liability	(a),(b)	–	4,481	4,481
Non-current deferred income		5,480	–	5,480
		55,517	4,481	59,998
Net liabilities		(13,997)	3,831	(10,166)
Shareholders' equity				
Share capital		1	–	1
Share premium		2,946	–	2,946
Other reserves	(e)	118	(75)	43
Profit and loss reserve (deficit)	(a),(b),(e)	(17,062)	3,906	(13,156)
Total shareholders' equity (deficit)		(13,997)	3,831	(10,166)

29 Reconciliation of net assets and profit under UK GAAP to IFRS (continued)

Reconciliation of equity at 30 April 2005 and 1 May 2005

	Note	UK GAAP \$'000	Effect of transition to IFRS \$'000	IFRS \$'000
Assets				
Non-current assets				
Goodwill	(a)	38,636	3,768	42,404
Intangible assets	(b),(c)	–	8,084	8,084
Property, plant and equipment	(c)	3,667	(1,390)	2,277
Deferred tax assets	(a),(b)	–	8,331	8,331
		42,303	18,793	61,096
Current assets				
Inventories		350	–	350
Trade and other receivables		50,244	–	50,244
Cash and cash equivalents	(d)	32,870	–	32,870
Deferred tax asset	(a),(b)	3,722	(3,722)	–
		87,186	(3,722)	83,464
Total assets		129,489	15,071	144,560
Liabilities				
Current liabilities				
Trade and other payables	(f)	71,192	(89)	71,103
Current tax liabilities		11,972	–	11,972
Financial liabilities – borrowings	(f)	8,010	89	8,099
		91,174	–	91,174
Non-current liabilities				
Financial liabilities – borrowings	(f)	103,240	127	103,367
Deferred tax liability	(a),(b)	–	7,748	7,748
Non-current deferred income	(f)	7,059	(127)	6,932
		110,299	7,748	118,047
Net liabilities		(71,984)	7,323	(64,661)
Shareholders' equity				
Capital and reserves attributable to the Company's equity holders				
Share capital		1	–	1
Share premium		3,376	–	3,376
Profit and loss reserve (deficit)	(e)	(75,192)	7,323	(67,869)
Other reserves	(a),(b),(e)	(169)	–	(169)
Total shareholders' equity (deficit)		(71,984)	7,323	(64,661)

Notes to the financial statements

for the year ended 30 April 2006

29 Reconciliation of net assets and profit under UK GAAP to IFRS (continued)

Reconciliation of profit for the period ended 30 April 2005

	Note	UK GAAP \$'000	Effect of transition to IFRS \$'000	IFRS \$'000
Turnover		150,645	–	150,645
Cost of sales	(b)	(6,327)	(4,587)	(10,914)
Gross profit		144,318	(4,587)	139,731
Selling and distribution costs		(48,105)	–	(48,105)
Research and development	(b)	(23,407)	5,809	(17,598)
Administrative expenses	(a)	(36,882)	3,768	(33,114)
Operating profit		35,924	4,990	40,914
Interest payable and similar charges		(8,656)	–	(8,656)
Interest receivable and similar income		382	–	382
Taxation	(a),(b)	(10,101)	(1,496)	(11,597)
Profit for the financial period		17,549	3,494	21,043

Explanation of reconciling differences between UK GAAP and IFRS

- The goodwill arising from the acquisition of the Group from Merant Plc was previously amortised under UK GAAP on a straight-line basis over its estimated useful economic life of 14 years. As at 1 May 2004 the net book amount under UK GAAP was adopted as the opening cost under IFRS. This goodwill is no longer amortised, but is subject to reviews for impairment. There is also a corresponding deferred tax movement as a result.
- Development costs were previously expensed through the profit and loss account, as permitted by UK GAAP. In accordance with IAS 38, development costs that meet certain criteria must be capitalised and amortised over the useful economic life to which they relate. The creation of this intangible represents a temporary difference under IFRS that leads to a corresponding deferred tax liability.
- Purchased computer software costs were previously recorded as property, plant and equipment, as permitted by UK GAAP. In accordance with IAS 38, all purchased computer software is recorded as an intangible asset.
- Under UK GAAP deposits held with financial institutions that cannot be withdrawn without penalty are categorised as current asset investments, provided they can be withdrawn within one year. Under IFRS cash and cash equivalents includes all deposits with up to three months' notice.
- Under UK GAAP treasury shares are shown as a movement in the profit and loss reserve. Under IFRS treasury shares are shown in other reserves.
- Under UK GAAP finance lease liabilities are shown under trade and other payables and other non-current liabilities. Under IFRS these are shown as borrowings.

Explanation of material adjustments to the cash flow statement

- Amounts paid for capitalised development costs during the period ended 30 April 2006 are classified as part of cash flows from investing activities under IFRS, but were included as part of operating cash flows under UK GAAP.
- Under IFRS cash and cash equivalents includes short-term deposits, under UK GAAP the same has been included in the management of liquid resources category.

There are no other material differences between the cash flow statement presented under IFRS and the cash flow statement presented under UK GAAP.