

Chief Executive Officer's statement

Execution

Over the past six months we have strengthened the management team, completed a strategy review and delivered a solid set of financial results. Whilst we still have many areas on which to improve, we have successfully executed on stabilising the business and have executed ahead of our initial expectations.

Poor sales execution was, as has already been identified and highlighted, the root cause of the fall in revenues in the year to 30 April 2006. The sales team has been strengthened and significant emphasis has been placed on refining our go-to-market strategy and our direct sales execution capability. Appropriate focus is also being applied to all other functions within the business to ensure objectives are aligned to drive future revenue growth.

The Company continues to have an enviable customer base with approximately 50% of turnover derived from secure and predictable maintenance revenues. The growth achieved in maintenance over the past six months has been encouraging.

The combination of revenue growth and cost reductions has produced a material improvement in net profits during the period.

We acquired HAL Knowledge Solutions SPA following the period end. This acquisition expands our existing APM solution and we believe it now provides us with a market-leading position from which to take advantage of the rapidly evolving APM space.

Our Company now has firm financial foundations to support a platform for growth. The net cash balance at 31 October 2006 was \$68.1 million, up from \$38.6 million as at 31 October 2005 as a result of improvements in the underlying trading performance.

Strategy review

The strategy review was undertaken by a combined external and internal team with extensive external data, analysis and input. I am pleased to report that the review confirmed and further clarified the board's view of our business.

- A firm market exists for all four of our solution areas; COBOL tools, modernisation (leverage and extend), migrations (lift and shift) and Application Portfolio Management ("APM").
- Whilst growth rates may vary, in aggregate all four solution areas combined can support growth over the long term.
- Our core business remains predominantly based around the sale of COBOL tools. We are the leading worldwide player in this market and we will continue to invest to maintain this position.

- Our opportunity, and at the same time our key challenge, is to expand our enterprise solution sales capability. Over the past two years in both our modernisation and migration solutions, we believe we have established both market awareness and a leading position. We will focus firmly on the go-to-market strategy in these areas to capitalise on this.
- Micro Focus will continue to focus on direct sales with support from aligned system integrator partners.
- Whilst still in its infancy, the APM market provides both significant growth potential and the ability to leverage our other solutions into senior executives at key corporate clients. APM allows management to better understand the Enterprise Applications developed by their organisations over many decades and thereby allows them to determine the appropriate option to deploy on an ongoing basis – be that modernising into Service Oriented Architecture (“SOA”), enhancing and extending valuable applications to address new business requirements, migrating applications to lower-cost platforms, or making better use of COBOL and other tools. The acquisition of HAL Knowledge Solutions SPA significantly enhances our execution capability in this space.

Micro Focus intends to host an event for analysts in early 2007 to provide more detail around the strategy review.

To ensure sustainable growth, we are focused on linking our strategy to specific actions for executives and establishing the right cultures and values to help drive effective execution.

Outlook

The outlook for the core business excluding the impact of the acquisition of HAL Knowledge Solutions (“HAL KS”) is detailed below. Our expectations with regard to HAL KS are discussed in the Chief Financial Officer’s review.

Future revenue growth will be largely dependent on driving licence sales. It was therefore particularly pleasing to see the level of first half-year licence fees, achieved with minimal contribution from large transactions. Our largest licence contract during the first half year was \$0.7 million. In prior periods, the Company had benefited from contracts significantly in excess of this value. A number of large contracts remain in our pipeline although by their very nature, they are unpredictable.

As reported in the preliminary results, we had expected maintenance revenues to be broadly flat year on year. However, the solid first half of licence fees combined with an encouraging renewal rate, price increases and a focus on closing contracts in negotiation has resulted in positive growth.

The smallest proportion of our revenues is derived from our consultancy services and it is intended that these revenues will remain a similar proportion of total revenues for the year ahead.

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As a result of the above, we expect full-year total revenue growth in the range of 7% to 10% as compared to the prior year.

Sustainable and profitable revenue growth is the key factor that will determine the long-term success of the Company. Management's emphasis will continue to be on licence fee sales to drive growth.

As a business, we have made positive progress over the past six months. We have developed a clearly scoped out strategy to work to and a firm focus on execution and tight cost control. The revenue outcome for the year will be determined primarily by the licence fee performance in the second half. Sales and marketing costs are expected to be slightly higher in the second half year as we look to further strengthen our go to market execution capability.

We are encouraged by the progress to date but are conscious that there is further work to do.

Stephen Kelly *Chief Executive*