

Remuneration report

Introduction

This is the Company's remuneration report in respect of the year to 30 April 2007 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 2003 Combined Code on corporate governance relating to directors' remuneration and the Directors' Remuneration Report Regulations 2002 (the "regulations"). 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 1985 (as amended by the regulations). The report has therefore been divided into separate sections for audited and unaudited information.

In accordance with the Companies Act 1985, a resolution to approve the remuneration report will be proposed at the Company's AGM on 26 September 2007. 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.

Unaudited information

The remuneration committee

The committee met eight times during the financial year. The committee is responsible for reviewing remuneration arrangements for the Chairman and the executive management 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 benefits structures throughout the Company or Group; and
- to review the ongoing appropriateness and relevance of the remuneration policy.

Kevin Loosemore is the Chairman of the committee, with David Maloney, Tom Skelton and Paul Pester its other members. The Company is aware that the Chairman is not regarded as independent for the purposes of the Combined Code. As a result of the appointment of Tom Skelton and Paul Pester as additional independent non-executive directors to the committee, it is planned that Kevin Loosemore will hand over the chairmanship of the committee before the end of the year. Where appropriate the committee invites the views of the Chief Executive Officer, the Chief Financial Officer and the Vice President of Human Resources, as well as that of external remuneration consultants. Similarly the Chairman absents himself from any discussion relating to his own remuneration.

The committee has been materially assisted by New Bridge Street Consultants LLP (who are the principal advisers to the committee) in providing remuneration advice, by Steen and Co, solicitors, by the Company Secretary and by Linklaters, solicitors. New Bridge Street Consultants LLP was appointed by the committee and provided no other services to the Group. During the year the Chief Executive Officer attended some of the meetings by invitation of the committee on specific items, however he did not participate in discussions relating to his own remuneration.

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.

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 considered 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.

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 executive directors are employed subject to service contracts. 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. The service contract dated 24 July 2006 and amending Deed dated 26 February 2007 with Mike Shinya requires the Company to give six months' notice of termination. Mike Shinya 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.

Nick Bray and Mike Shinya do not serve as non-executive directors for any company. None of the executive directors may 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. Except for Prescott Ashe and David Dominik, who are directors of Golden Gate Capital, 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 appointment letters with the Company which became effective on 4 April 2005. Prescott Ashe and David Dominik are non-independent directors of the Company and signed appointment letters with the Company on 29 April 2005 which became effective immediately. Tom Skelton signed an appointment letter with effect from 23 October 2006. Paul Pester signed an appointment letter which took effect from 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. Accordingly, non-executive directors Tom Skelton and Paul Pester will be subject to election at the Company's AGM to be held on 26 September 2007. As the remaining non-executive directors were all elected to the board at the AGM of the Company in September 2005, the directors have agreed to offer themselves for re-election on a rotation basis. Accordingly, Kevin Loosemore retired voluntarily and was re-elected at the Company's AGM in September 2006 and David Maloney and David Dominik will be retiring voluntarily and submitting themselves for re-election by the shareholders at the AGM of the Company on 26 September 2007. 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 report

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 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 New Bridge Street Consultants LLP in making these comparisons.

With effect from 1 July 2007, the salaries of the executive directors are as follows:

- Stephen Kelly £300,000
- Nick Bray £200,000*
- Mike Shinya £250,000

*With effect from 1 July 2007, the committee agreed to increase Nick Bray's salary from £180,000 to £200,000 to bring it in line with the current market salary.

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 percentages increase as revenue and profit exceed targets.

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 challenging and clearly-assessable targets are set for executive directors, which will include regard to consensus brokers' forecasts where relevant.

Details of bonuses paid to executive directors in the year to 30 April 2007 are detailed in the remuneration tables herein. For directors appointed during the year, remuneration is shown from date of appointment to

30 April 2007. Bonuses are awarded wholly in cash. The performance targets for Stephen Kelly were substantially met, resulting in a bonus of 145% of salary. The performance targets for Nick Bray were substantially met, resulting in a bonus of 97% of salary. The performance targets for Mike Shinya were substantially met, resulting in a bonus of 100% of salary. In respect of the year 2007-08 the cap on bonuses payable to Stephen Kelly and Mike Shinya remain at 150% of base salary and 100% of base 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 whilst allowing the Group's cash reserves to be conserved. Further awards of options or free shares will be considered by the committee on an ongoing basis.

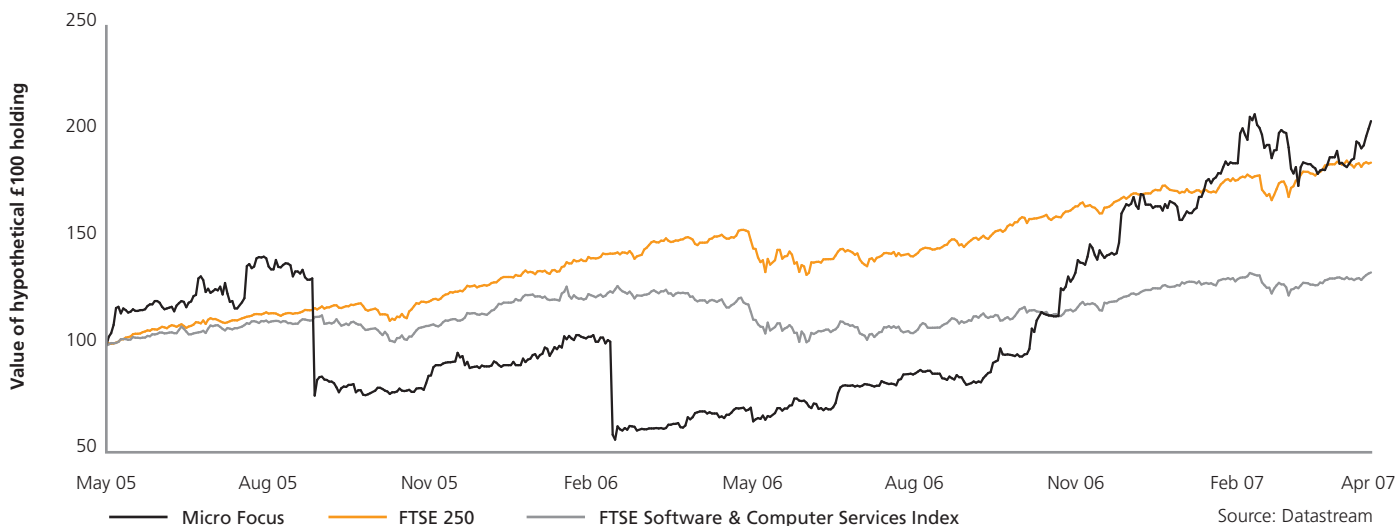
The Company adopted the Micro Focus International plc Incentive Plan 2005 (the "Plan") prior to admission. This is intended to provide a flexible framework to allow the Company to make awards of free shares in the form of nil-cost options, conditional awards or forfeitable shares, or to grant market value options ("awards"). Currently, the Company's on-going policy is to make awards of market value options, both to the executive directors and to other senior and key employees.

The market value options granted to executive directors in the year ending 30 April 2007 are subject to a performance condition measuring the Company's earnings per share ("EPS") growth and revenue growth over three financial years. The 2006 awards 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%.

The targets for market value option awards to be made to the executive directors during the year ended 30 April 2008 have been reviewed by the committee. These will 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.

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 award or, in the case of market value options, 50% of the market value of the shares

Total shareholder return



This graph shows the value, by 30 April 2007, of £100 invested in Micro Focus International plc on 17 May 2005 (the date of Admission) compared with the value of £100 invested in the FTSE 250 and the FTSE Software & Computer Services Indices. The intervening points are daily values.

under option at the time of award. This limit may be exceeded only where the committee determines that there are exceptional circumstances.

During the year, shareholders approved a resolution allowing the Company to satisfy option awards via the use of share appreciation rights. This is intended to allow the Company additional flexibility to manage 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. The committee ensures that the Company complies with its dilution limits at all times.

Recruitment awards to executive directors

As disclosed in last year's remuneration report, Stephen Kelly was awarded options equivalent to four times annual basic salary and Nick Bray and Mike Shinya were awarded options equivalent to three times annual basic salary on joining the Company.

In addition, as disclosed last year, the three executive directors are entitled to a conditional amount of matching shares having purchased shares in the Company in their first year of employment. The shares they acquired during the first year of employment will be matched at a ratio of one share for every one acquired, up to a maximum 100% of salary for Stephen Kelly and Mike Shinya and up to a maximum of 50% of salary for Nick Bray, subject to continued employment for a period of three years from the purchase of the acquired shares, but no further performance conditions. Details of the directors' interests in these matching shares are shown on page 31.

The graph above shows the performance of the Company relative to the FTSE 250 index and the FTSE Software & Computer Services index which have been chosen as they are considered to be the most relevant indices for the Company.

All-employee share incentives

During the year, the Company in general meeting approved a Sharesave scheme and an Employee Share Purchase Plan ("ESPP") open respectively to all UK-based and US-based employees, including executive directors. Under the Sharesave scheme and ESPP, employees are eligible to acquire shares in the Company at a discount of up to 20% of the market value at grant (15% for the ESPP) if they agree to enter into a savings contract for a period. Consistent with the relevant legislation, no performance conditions apply. Awards were granted to 175 employees over 952,922 shares in the year ending 30 April 2007.

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 pension scheme beyond the payment of contributions. The Company was not, therefore, impacted by the new pensions regime which came into force on 6 April 2006.

The company contributions for the executive directors are 5% of salary.

Pension benefits include death in service.

Remuneration report

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.

Audited information

Detailed emoluments of the directors of the Group

The aggregate remuneration paid to directors during the year ending 30 April 2007 was as follows:

	Base salary £'000	Bonus £'000	Benefits in kind £'000	Pensions £'000	Total 2007 £'000	Total 2006 £'000
Executive directors						
Stephen Kelly	300	435	19	15	769	–
Nick Bray	180	175	13	9	377	161
Mike Shinya (appointed 26 February 2007)	44	44	3	2	93	–
Total	524	654	35	26	1,239	161
Non-executive directors						
Kevin Loosemore	152	–	–	–	152	179
David Maloney	60	–	–	–	60	60
John Browett (resigned 27 September 2006)	20	–	–	–	20	25
Tom Skelton (appointed 23 October 2006)	16	–	–	–	16	–
Total	248	–	–	–	248	264

The table above includes £27,000 paid to Kevin Loosemore in the year ended 30 April 2007, as additional remuneration when acting as interim Chief Executive Officer (2006: £54,000).

Non-executive director fees for the year were £125,000 for the Chairman, Kevin Loosemore (2006: £125,000); £60,000 for the Senior Independent Director, David Maloney (2006: £60,000), £30,000 for each of John Browett (2006: £30,000) and Tom Skelton (prorated). Non-executive director fees are subject to periodic review.

Neither of the non-independent non-executive directors of the Company (David Dominik and Prescott Ashe) received any emoluments during the year ended 30 April 2007 (2006: nil). David Dominik and Prescott Ashe are directors of Golden Gate Capital.

Directors' interests in share capital

At 30 April 2007 the directors owned the following shares in the Company. These interests were all beneficially held.

Director	At 30 April 2006 or date of appointment if later	
	At 30 April 2007	
Kevin Loosemore	450,000	406,640
Stephen Kelly	125,000	–
Nick Bray	77,770	20,000
Mike Shinya	261,194	261,194
David Maloney	50,000	30,000
David Dominik	–	–
Prescott Ashe	–	–
Tom Skelton	–	–
Paul Pester	–	–

As at 31 July 2007 there had been no changes to these interests.

Long-Term Incentive Plan 2005 ("LTIP")

The following grants were made to the executive directors under the terms of the Long-Term Incentive Plan 2005 are as follows:

	Number				At 30 April 2007	Exercise price	Dates of exercise
	At 1 May 2006	Granted in year	Exercised	Waived			
Stephen Kelly ¹	–	1,153,846	–	–	1,153,846	104.0p	17 July 2009 to 16 July 2016
Nick Bray ^{1,2}	412,955	–	–	–	412,955	123.5p	11 January 2009 to 10 January 2016
	–	100,000	–	–	100,000	104.0p	17 July 2009 to 16 July 2016
Mike Shinya ¹	–	717,703	–	–	717,703	104.5p	25 July 2009 to 24 July 2016
Total	412,955	1,971,549	–	–	2,384,504		

1 The performance condition applying to awards granted in the 12 months to 30 April 2007 awards 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%.

2 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%.

LTIP – Matching Share Scheme

During the year the following additional grants were made to the executive directors in accordance with the terms of the Long-Term Incentive Plan 2005:

	Number			Exercise price	Vesting date
	At 1 May 2006	Granted in year	At 30 April 2007		
Stephen Kelly	–	125,000	125,000	10p	13 December 2009
Nick Bray	–	20,000	20,000	10p	17 July 2009
	–	57,659	57,659	10p	13 December 2009
Mike Shinya	–	239,234	239,234	10p	25 July 2009
Total	–	441,893	441,893		

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 granted to each director of the Company are as follows:

	Number				At 30 April 2007	Exercise price	Dates of exercise
	At 1 May 2006	Granted in year	Exercised	Waived			
Nick Bray	–	11,130	–	–	11,130	84.0p	15 August 2009 to 15 February 2010
Mike Shinya	–	11,130	–	–	11,130	84.0p	15 August 2009 to 15 February 2010
Total	–	22,260	–	–	22,260		

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

Share option schemes

Details of the Company's share option schemes are given in note 24 of the financial statements.

The mid-market price of the shares at 30 April 2007 was 257 pence and during the year the price varied between 83 pence and 261 pence.

On behalf of the board,



Kevin Loosemore Chairman of the remuneration committee

31 July 2007