



Micro Focus International plc



Interim Results

for the half year ended 31 October 2006

8 December 2006

The following presentation is being made only to, and is only directed at, persons to whom such presentation may lawfully be communicated (“relevant persons”). Any person who is not a relevant person should not act or rely on this presentation or any of its contents. Information in the following presentation relating to the price at which relevant investments have been bought or sold in the past or the yield on such investments cannot be relied upon as a guide to the future performance of such investments.

This presentation does not constitute an offering of securities or otherwise constitute an invitation or inducement to any person to underwrite, subscribe for or otherwise acquire securities in Micro Focus International plc (the “Company”) or any company within the Micro Focus Group.

The release, publication or distribution of this presentation in certain jurisdictions may be restricted by law, and therefore persons in such jurisdictions into which this presentation is released, published or distributed should inform themselves about, and observe, such restrictions.

Certain statements contained in this presentation constitute forward-looking statements. All statements other than statements of historical facts included in this presentation, 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 turnover 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 and the development of the Lift & Shift market; the continued use and necessity of the mainframe for business critical applications; the degree of competition faced by the Company; 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 presentation. Except as required by the Financial Services Authority, 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.

Agenda

- Introduction
- Financial Review
- Operational Review
- Summary and Outlook



Introduction

Stephen Kelly

Introduction: Satisfactory progress – more work to do

- Solid first half year financials
 - Revenue growth driven by both license fees and maintenance
 - Costs tightly controlled
 - Significant improvements in profitability
- Management team strengthened
- Strategy review completed
 - Market exists to support long term growth
- Acquisition of HAL KS
- Continued focus on execution
 - Further work to do in the remainder of the year



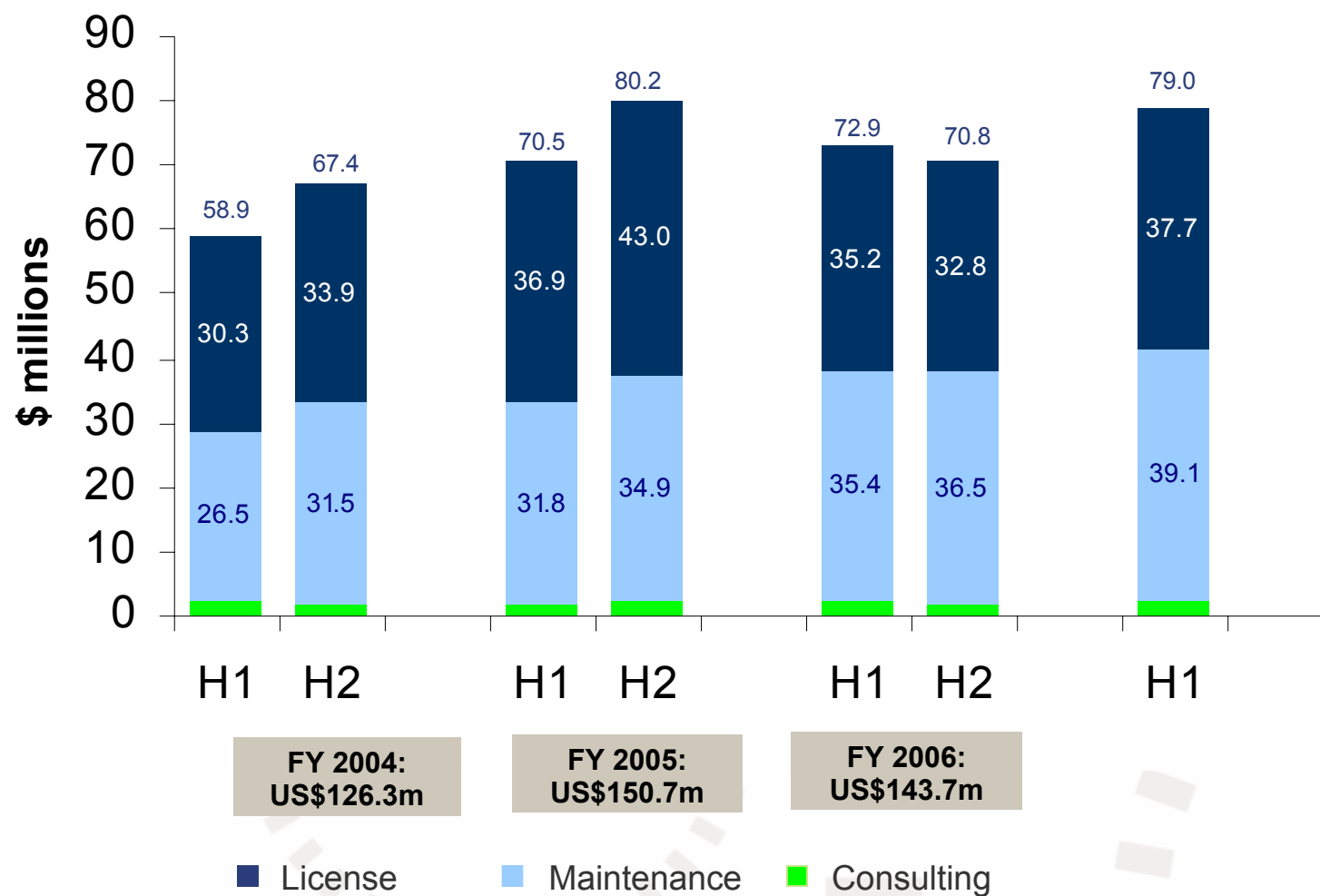
Financial Review

Nick Bray

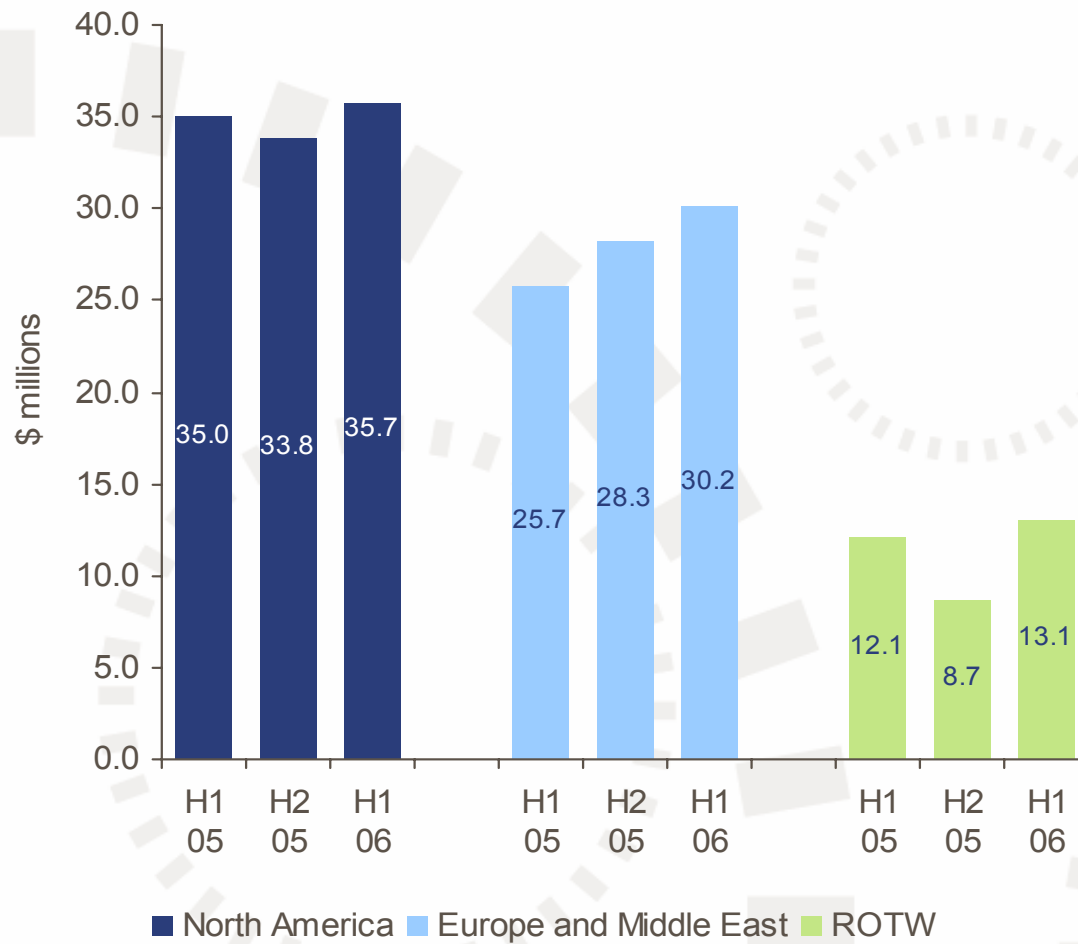
Financial highlights

- Turnover up 8% to US\$79.0m (2005: US\$72.9m)
- Operating profit before exceptional items up 55% to US\$30.4m (2005: US\$19.6m)
- Basic earnings per share of 12.03 cents (2005: 4.66 cents)
- Net cash balance at 30 April 2006 of US\$68.1m (2005: US\$38.6m)
- Interim dividend up 50% to 3 cents per share (2005: 2 cents per share)

Revenue – Half Year Analysis



Revenue – Geographic Split



Expenses

- Continued firm control of costs
- Sales and Marketing costs expected to be slightly higher in the second half year
 - New direct sales hires
 - Targeted direct marketing spend in support of generating new business

Income statement

	Six months ended 31 October 2006 (unaudited) \$'000	Six months ended 31 October 2005 (unaudited) \$'000	Year ended 30 April 2006 (audited) \$'000
Turnover	78,966	72,859	143,688
Cost of sales	(8,052)	(9,302)*	(17,552)*
Gross profit	70,914	63,557	126,136
Selling and distribution costs	(19,948)	(24,374)	(48,500)
Research and development	(10,811)	(11,225)*	(21,714)*
Administrative expenses before exceptional items	(9,743)	(8,343)*	(18,976)*
Operating profit before exceptional items	30,412	19,615	36,946
Exceptional administrative expenses	(390)	(5,958)	(14,213)
Operating profit	30,022	13,657	22,733
Interest payable and similar charges	(5)	(1,158)	(1,137)
Interest receivable and similar income	1,370	362	962
Profit before tax	31,387	12,861	22,558
Taxation	(7,377)	(3,858)	(6,332)
Profit for the period	24,010	9,003	16,226

Earnings per share expressed in cents per share

- basic	12.03	4.66	8.25
- diluted	11.89	4.61	8.17

* Certain costs have been reclassified between Cost of Sales, Research and Development and Administrative expenses

EBITDA reconciliation

	Six months ended 31 October 2006 (unaudited) \$'000	Six months ended 31 October 2005 (unaudited) \$'000
Operating Profit	30,022	13,657
Depreciation / Amortisation	878	901
EBITDA	30,900	14,588
Exceptional – Stock Comp	390	(500)
Exceptional Items – IPO-related costs	-	6,458
EBITDA before exceptional items	31,290	20,516

Balance sheet

	31 October 2006 (unaudited) \$'000	31 October 2005 (unaudited) \$'000	30 April 2006 (audited) \$'000
Goodwill	42,404	42,404	42,404
Cash and cash equivalents	68,223	38,846	56,066
Other assets	60,083	54,317	55,701
Total assets	170,710	135,567	154,171
Borrowings	159	272	211
Other liabilities	95,958	81,130	96,459
Total liabilities	96,117	81,402	96,670
Net assets (liabilities)	74,593	54,165	57,501

Cashflow

	Six months ended 31 October 2006 (unaudited) \$'000	Six months ended 31 October 2005 (unaudited) \$'000	Year ended 30 April 2006 (audited) \$'000
Net cash from operating activities	22,190	10,295	34,982
Net cash used in investing activities	(2,772)	(3,044)	(6,109)
Cash flows from financing activities			
Net proceeds from issue of ordinary share capital	71	110,500	109,823
Repayment of borrowings	-	(111,250)	(111,250)
Dividends paid to shareholders	(7,983)	-	(3,987)
Net cash used in financing activities	(7,912)	(750)	(5,414)
Effects of changes in exchange rates	651	(525)	(263)
Net increase in cash and cash equivalents	12,157	5,976	23,196
Cash and cash equivalents at beginning of period	56,066	32,870	32,870
Cash and cash equivalents at end of period	68,223	38,846	56,066

Acquisition: HAL Knowledge Solutions

- Opportunities identified as a target within Strategy Review
- Expected revenues for the six months to April 2007 in the range of US\$4.0m to US\$5.0m
- Break even expected to be achieved in the six month period to April 2007; expected to be profitable thereafter
- Balance sheet liabilities of US\$4.5m at acquisition
- Expected restructuring charge of US\$4.0m
- Provides us with a market leading position from which to take advantage of the rapidly evolving APM market

Summary

- Satisfactory year on year revenue growth
 - License fee revenues are key to sustained growth
 - Encouraging result with low reliance on large deals
 - Maintenance revenues (50% of Group turnover) - secure run rate and solid H1 growth
 - Established growth in Europe; US is key area of focus
- Expenses reduced and tightly managed
 - Modest increase in sales and marketing investment in H2 to support continued growth
- Positive increase in dividend
 - 50% increase



Operational Review

Stephen Kelly

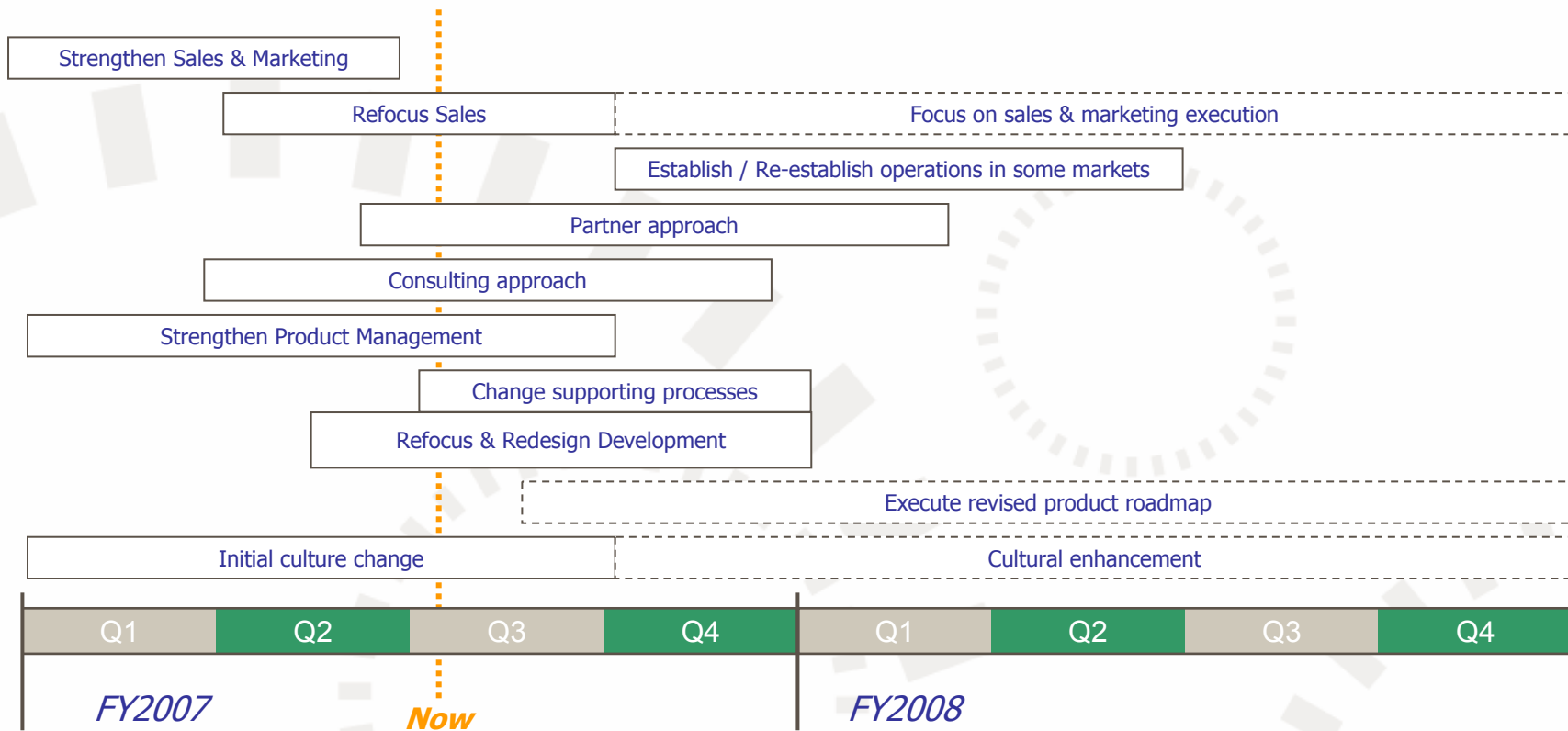
Operational Highlights

- Primary focus - sales and marketing execution
- Management team further strengthened
 - Mike Shinya (COO), Frank van Baar (VP Consulting)
- Supporting functions focused and aligned
- Strategy review completed
 - early 2007 Strategy Review presentations

Execution

- Go to market
 - Direct sales
 - Integrated consistent country model
 - Pipeline build
 - Conversion rate
 - Partners
 - SIs important but no ‘dependency’ - MF seeking control of own destiny
 - More balance within technology partner base - IBM/Microsoft/Oracle
 - Services
 - Modest component of total revenues
 - Must be profitable
 - Brand & Positioning
 - Alignment of supporting functions
- Product Roadmap
 - No major investments required above run rate spend
 - Roadmap is clearly defined post Strategy Review and is being executed

Execution – ongoing (high level summary)



Global Blue Chip Customers

Financial Services



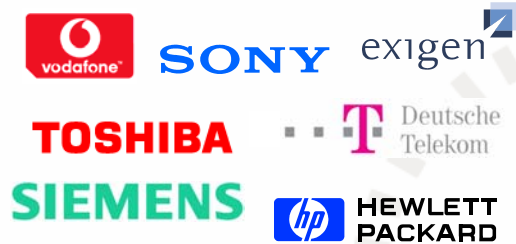
Manufacturing



Health Care



Telecom/Tech



Retail/Other



Packaged Application Providers



Over 90 of the Global Fortune 100 Companies

Strategy Review – Addressable market

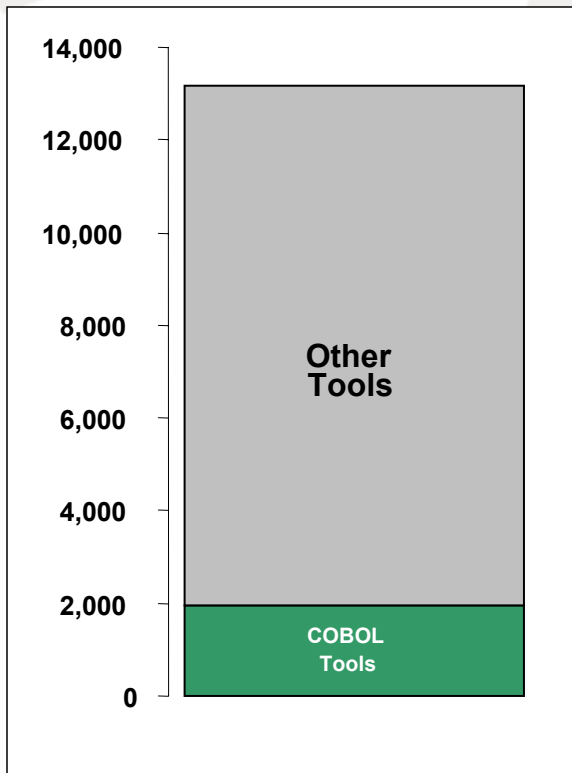
- “Real and sustainable”
- Micro Focus is major player
- Market supports growth

- Early 2007 half day Strategy Review session
 - Management presentations
 - Product demonstrations : APM, Modernisation
 - Testimonials

Micro Focus addressable market was c.US\$620M in 2005 and is a small subset of the total AD market. Within this defined market, Micro Focus has a 25% market share...

WW application software development and deployment market (est.)

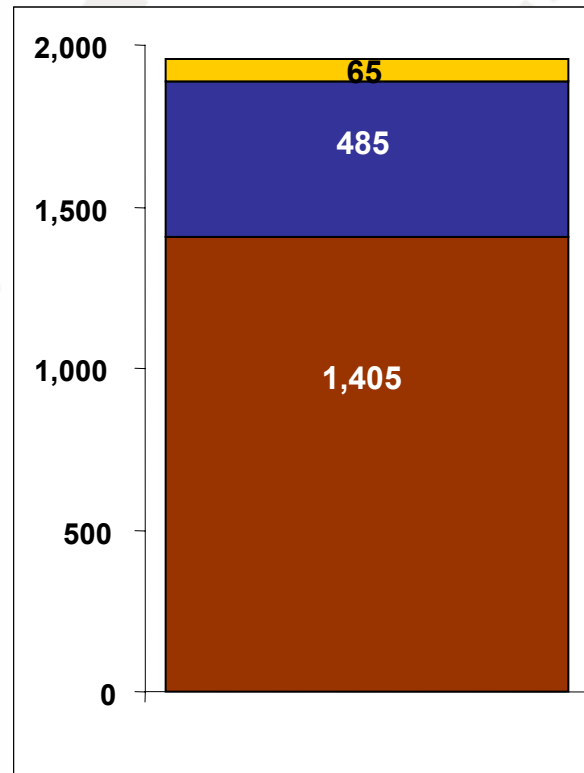
US\$13.2bn



Total COBOL market space

WW COBOL & Related development and deployment tool market (est.)

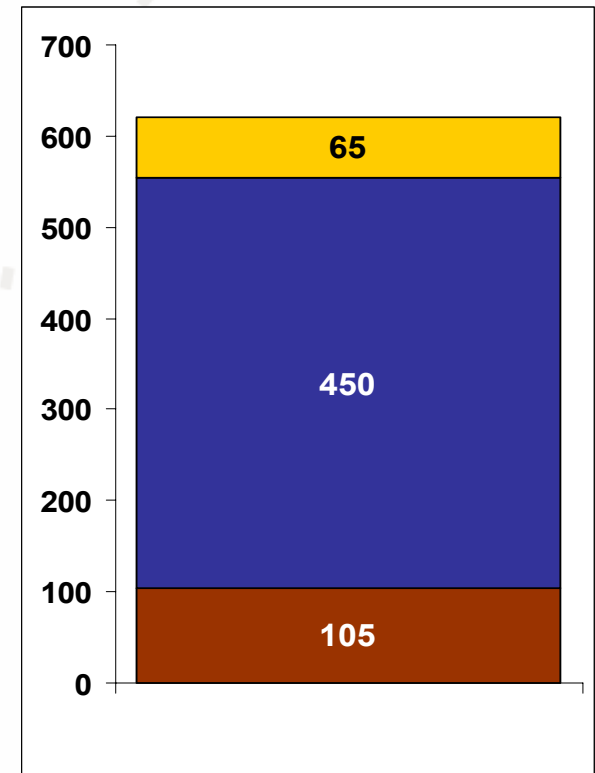
US\$1.95bn



Relevant market space given products

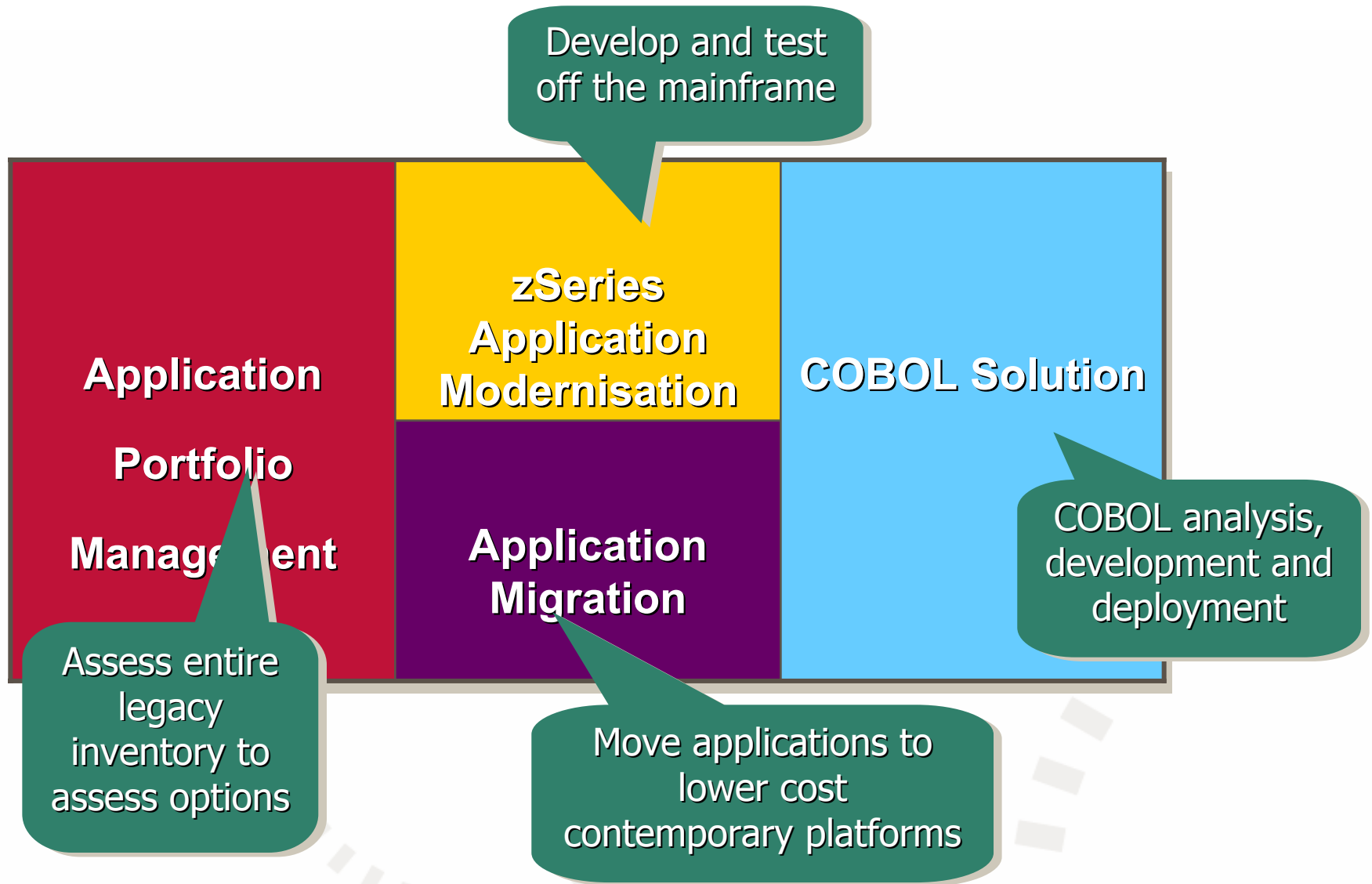
Market for on and off mainframe COBOL development, off mainframe deployment and analysis

US\$620m



Note: No industry analysts are publishing data specifically tracking COBOL market space. Market sizing on IDC (2003), Ovum (2005), competitor revenues and Micro Focus assumptions about the size of the market.

Solutions – APM now strengthened





Summary and Outlook

Stephen Kelly

Summary

- Execution of the core business remains key focus
 - Early focus on Sales, Marketing and Product Management
 - Strengthen Direct Sales and supporting SI Partnering
 - Microsoft and IBM relationships
 - Further investment in sales and marketing
 - Acquisition of HAL to strengthen APM solution

- Market is real and sustainable and can support growth
 - Solid start yet too early to predict long-term growth rate

Outlook

- Focus on sustainable, profitable growth and shareholder value
- Expected revenue growth 7-10% for the full year
- Emphasis on licence fee sales to drive growth
- Encouraged by progress to date but conscious of further work to do



Questions