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Micro Focus International plc

Preliminary results for the twelve months to 30 April 2005

Turnover growth of 19% and profit before tax up 24%

London, UK, July 1, 2005 - Micro Focus International plc ("Micro Focus" or "the Company"; LSE MCRO.L), Unlocking the Value of Legacy™, the software company, announces its maiden preliminary results as a listed company for the year to 30 April 2005. Micro Focus listed on the main market of the London Stock Exchange on 17 May 2005 ("the IPO").

The Company acquired the entire issued share capital of Micro Focus International Limited ("the Operating Company") on 17 May 2005, immediately prior to the IPO. The results published herein show the consolidated performance of the Operating Company and its subsidiaries (together with the Company, "the Group") for the year to 30 April 2005 and the turnover achieved for the year is in line with the estimate published in the supplementary listing particulars dated 6 and 12 May 2005 and issued by the Company in connection with the IPO. The Company did not trade prior to 30 April 2005 and therefore only its balance sheet and cash flow statements are included below.

Key highlights

- Turnover increased 19.3% to US$150.6m (2004: US$126.3m)
- Turnover increased 15% at constant currency
- EBITDA increased 35.0% to US$41.7m (2004: US$30.9m) and adjusted EBITDA increased 45.7% to US$48.7m (2004: US$33.5m)*
- Profit on ordinary activities before tax increased 23.6% to US$27.7m (2004: US$22.0m)
- Basic earnings per share increased 21.8% to 11.91c (2004: 9.78c)
- Successful IPO in May 2005
- John Browett appointed as a Non-executive Director with effect from 1 July 2005

Commenting on the results, Tony Hill, Chief Executive Officer of Micro Focus, said:

"We are pleased to announce a strong set of full-year results, building on the substantial revenue and operating profit growth the Company has achieved since its independence in August 2001. We believe this financial performance is further endorsement of our technology leadership and our strong and growing network of business partners.

As companies around the world seek to reduce operating cost and become more agile, so they are increasingly looking to exploit their investment in legacy IT assets. By helping our customers manage legacy more effectively and drive reuse within contemporary contexts, Micro Focus unlocks business value. Moreover, our evolutionary approach comes with much less risk than alternative strategies based on wholesale system replacement.

press release

Our business model is continuing to prove its value. In recent months we have achieved greater penetration of our target markets and, following the IPO and the repayment of debt, we are financially well positioned to maintain profitable growth and generate cash. The Company continues to make good progress and is well positioned for continued growth in the year ahead."

*Details of the reconciliation of operating profit to adjusted EBITDA is provided in the preliminary results

Operating and Financial Review

We are delighted to announce a strong set of maiden preliminary results as a listed company following our successful IPO in May 2005.

The Micro Focus business traces its origins back to 1976. Micro Focus Group plc which was founded in 1983 and had its ordinary shares listed on the London Stock Exchange and American Depositary Receipts quoted on NASDAQ, purchased Intersolv, Inc. in a share-for-share exchange offer in 1998 and the combined entity was named MERANT plc ("MERANT"). In August 2001 following a strategic decision by MERANT to refocus its business, MERANT sold the operations that form the Operating Company to Golden Gate Capital, a US-based private equity fund. Since that time, we have refocused the business on legacy development and deployment, what we describe as "unlocking the value of legacy", a strategy which has formed the basis of our success over the past four years.

Results of Operations

On 17 May 2005 (immediately prior to the IPO) the Company acquired the entire issued share capital of the Operating Company by way of 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. The results presented herein for the twelve months to 30 April 2005 therefore represent trading of the Operating Company.

Turnover
Turnover for the year ended 30 April 2005 increased by 19.3 per cent to US$150.6 million from US$126.3 million for the year ended 30 April 2004 and was in line with the estimate published in the supplementary listing particulars dated 6 and 12 May 2005 and issued by the Company in connection with the IPO. Even after removing the impact of currency fluctuations on turnover during the year, turnover increased by 15 per cent.

	Year ended 30 April			
	2004		2005	
	(US $'000)	(per cent)	(US $'000)	(per cent)
Licence Fees	64,221	50.9	79,860	53.0
Maintenance Fees	57,980	45.9	66,705	44.3
Consultancy Fees	4,077	3.2	4,080	2.7
Total turnover	**126,268**	**100.0**	**150,645**	**100.0**

Licence fees
Licence fees increased 24.4 per cent on the previous year, principally due to increased volumes of licence sales, particularly in North America, as a result of Micro Focus' efforts to leverage its partners' distribution networks. Within licence sales, the proportion of turnover generated from sales of deployment software, particularly with respect to the UNIX platform, continued to increase, partially driven by the overall industry trend towards the use of service oriented architectures and web services frameworks.

Maintenance fees
Maintenance fees increased 15.0 per cent on the previous year, driven by increasing licence sales during the year ended 30 April 2005, as well as maintenance renewal fees for licences sold during the prior financial year.

Consultancy fees
Consultancy fees during the year continued to decrease as a percentage of total turnover, in line with the Company's overall strategy of minimising the provision of consultancy services.

Cost of sales
Cost of sales for the year ended 30 April 2005 decreased by 23.6 per cent to US$6.3 million from US$8.3 million for the year ended 30 April 2004. The decrease in cost of sales was principally driven by a reduction in headcount as a result of the Company's implementation of its partner centric approach towards customer support and a reduction in the level of consulting and training services provided during the year. This has been a significant focus for the Board and reflects Micro Focus' continued focus on being a nearly pure software business.

Operating profit
Operating profit for the year ended 30 April 2005 increased by 42.3 per cent to US$35.9 million from US$25.2 million for the year ended 30 April 2004. This increase reflects the significant economies of scale in our cost structure against substantial growth in revenues.

EBITDA and Adjusted EBITDA
The Board, in common with most software companies, pay particular attention to EBITDA and adjusted EBITDA as two key measures of performance. These are calculated as follows:

	Year ended April 30 2004 $ '000	Year ended April 30 2005 $ '000
Operating profit	25,239	35,924
- Depreciation	1,849	1,962
- Amortisation	3,769	3,769
Earnings before interest tax depreciation and amortisation (EBITDA)	30,857	41,655
Share based compensation	840	3,581
Non recurring costs		
- Management charges	1,200	1,200
- Reorganisation costs	-	2,302
- Redundancy costs	562	-
Adjusted EBITDA	33,459	48,738

EBITDA increased by 35.0 per cent and adjusted EBITDA increased by 45.7 per cent over the previous year.

Tax on profit on ordinary activities
Tax on profit on ordinary activities for the year ended 30 April 2005 increased to US$10.1 million from US$7.8 million for the year ended 30 April 2004. The increase is principally attributable to increased taxes due to increased profitability, both in the United Kingdom and abroad, during the year, partially offset by a decrease in deferred taxes.

Profit after tax
Profit on ordinary activities after tax for the year ended 30 April 2005 increased by 23.3 per cent to US$17.5 million from US$14.2 million for the year ended 30 April 2004.

Dividends

The Board intends to adopt a progressive dividend policy reflecting the long-term earnings and cashflow potential of Micro Focus whilst targeting an initial level of dividend cover for the full financial year ended 30 April 2006 of approximately 2.5 times on a pre-exceptional earnings basis.

Cashflow

For the financial year ended 30 April 2005, the Operating Company generated a net cash inflow from operating activities of US$46.4 million (2004: US$31.7 million). The increase in net cash inflow was driven by improved operating performance, specifically through increased sales of software and the effective management of our working capital.

Going forward, the Company anticipates that its principal source of cash from operating activities will continue to be generated by software licence and maintenance fees.

The strong cash flow, together with the funds generated from the IPO (US$122 million), enabled us to pay off the outstanding loans.

Our Business

The need for companies to increase their agility while, at the same time, reducing costs and minimising risk has led many to look for ways to capitalise on their investment in legacy technology. As much as 80% of an organisation's software budget may be used to maintain and operate legacy applications which have traditionally been too inflexible to integrate with one another or with newer technologies. The lower cost of contemporary platforms combined with technical advances, such as security, flexibility and scalability, and the emergence of enabling technologies, such as web services and service-oriented architectures, has driven many organisations to look for ways to re-use their legacy investments. And it should be borne in mind that such legacy assets might be as little as five years old.

Organisations seeking to modernise their IT infrastructure broadly have the following alternatives:

- Improve the development infrastructure for their current applications and platforms by increasing developer productivity and lowering development costs. We refer to this as Leverage & Extend;

- Extend critical legacy applications and services on current platforms to new internal and external user communities by using the internet and contemporary architectures, also part of Leverage & Extend;

- Move legacy applications from current high cost or end-of-life platforms, such as the mainframe, to more contemporary, open and flexible platforms such as Windows, Unix and Linux. We refer to this as Lift & Shift; and

- Replace legacy applications on mainframes with new packages or new custom-built applications which run on more contemporary, open and flexible platforms, such as Windows, Unix and Linux, often referred to in the industry as Rip and Replace.

Our legacy application development and deployment software enables our customers to improve their development infrastructure, to extend legacy applications to new users and to move them to contemporary platforms. We believe that the high costs and risks associated with large-scale replacement projects are rarely viable in today's climate of tight cost and risk management and are, in most instances, unnecessary.

Customers and Partners

Our expertise, developed over 30 years, with a strong record of technology innovation in legacy development and deployment solutions has resulted in more than one million licensed users of our software around the world. Our customers include more than 70 of the Fortune Global 100 companies. They include companies which operate in a wide range of industry sectors, including financial services, insurance and government, of varying sizes and over a wide geographic area. Approximately 49% of our turnover is derived from North America, 38% from Europe and the Middle East, and 13% from the rest of the world. No single customer dominates. Because our products are deeply integrated into our customers' core IT systems, we have been able to create and maintain long-term relationships with them.

We sell our software through three channels:

- Direct customers buy our software to maintain and operate core legacy business applications and pay licence and maintenance fees direct to us;
- Indirect customers buy our software and pay licence and maintenance fees through packaged application providers and systems integrators; and
- Resellers sell Micro Focus software in geographic areas where Micro Focus does not have a presence.

We have developed a strong platform, technology, service and application partner ecosystem to expand our ability to develop, market and distribute our products, and to further support our customers' legacy modernisation initiatives. For example:

- Micro Focus is a member of the IBM Advanced Partnerworld program. We are a Microsoft Gold Certified Partner and a premier member of Microsoft's Visual Studio Industry Partner program. In 2004, we jointly announced the formation of the Mainframe Migration Alliance with Microsoft;
- We founded the Migration and Transformation Consortium, a global network of companies which specialises in modernising legacy systems with a combination of our software, specialist technology and legacy expertise;
- Many systems integrators such as EDS, Accenture and CSC work with us to provide migration and deployment services which use our Lift & Shift software to minimise the risk of moving to a contemporary platform; and
- Our application partners offer a range of packaged applications which feature the latest technology innovations and which can be implemented across a wide range of mainframe and contemporary platforms.

Long-term customer relationships have resulted in a relatively stable stream of revenue from recurring maintenance fees, as well as from licence fees from packaged application providers.

Strategy

Our objective is to be the leading global provider of legacy development and deployment software. We believe we will achieve this with the strategies outlined below.

We will endeavour to strengthen relationships with existing customers by promoting our complementary Leverage & Extend and Lift & Shift solutions. We believe that opportunities also exist to help systems integrators develop and deploy their own legacy applications.

The market for mainframe migration is expanding rapidly. We have been involved in more than 20 Lift & Shift projects since we launched the software in April 2004. We aim to increase awareness of this product through marketing and by establishing alliances with large systems integrators, and software and hardware vendors, including members of the Mainframe Migration Alliance. The increasing level of interest from customers and the growth in the average size of projects is, we believe, evidence that the market for mainframe migration continues to grow.

We aim to increase indirect sales through packaged applications providers, systems integrators and resellers by strengthening existing relationships with key industry players, such as Accenture, EDS and CSC, and by developing new relationships with other industry leaders. We intend to continue to focus on selling software licences, and the associated maintenance, and to rely on our systems integrator partners for professional services.

We will endeavour to continue to develop innovative technology and we will further invest in expanding the features and functionality of our technology and products. We intend to maintain a leading position in our market for legacy application development and deployment software by co-operating with our partners to expand the coverage of our technologies and products.

We will pursue selected technology-based acquisitions to take advantage of the growing mainframe migration market. This will enable us to ensure that our technologies cover all the necessary legacy and contemporary architectures, platforms and applications. Any acquisition will be incremental and will be selected to supplement existing products and to expand our customer base.

Our Board and people

Prior to the IPO, the Board was strengthened with the appointment of Kevin Loosemore as Non-executive Chairman and David Maloney as a Non-executive Director. Mr Loosemore has more than 20 years experience in the information technology and communications industries in which he has held senior roles including Chief Operating Officer of Cable & Wireless plc until 31 March 2005, President, Motorola Europe, Middle East and Africa and Chief Executive of IBM UK. Mr Maloney is a Non-executive Director of Virgin Mobile Holdings (UK) plc and was previously Chief Financial Officer of Le Meridien Hotels and Resorts and of Thomson Travel Group and Preussag Airlines, as well as Group Finance Director of Avis Europe plc.

In addition, we are pleased to announce today the appointment of John Browett, Operations Director - UK for Tesco, as a Non-executive Director with immediate effect. Further details regarding this appointment have been announced separately today.

We are grateful to all our employees, for their energy, commitment and contribution during the past year, which has been a time of immense change and demanding deadlines.

Outlook

We are pleased to announce a strong set of full-year results, building on the substantial revenue and operating margin growth the Group has achieved since its independence in August 2001. We believe this financial performance is further endorsement of our technology leadership and our strong and growing network of business partners.

As companies around the world seek to reduce operating cost and become more agile, so they are increasingly looking to exploit their investment in legacy IT assets. By helping our customers manage legacy more effectively and drive reuse within contemporary contexts, Micro Focus unlocks business value. Moreover, our evolutionary approach comes with much less risk than alternative strategies based on wholesale system replacement.

Our business model is continuing to prove its value. In recent months we have achieved greater penetration of our target markets and, following the IPO and the repayment of loans, we are financially well positioned to maintain profitable growth and generate cash. The Company continues to make good progress and is well positioned for continued growth in the year ahead.

Certain statements in this announcement are "forward-looking statements". The forward looking statements can be identified by the use of forward-looking terminology including the terms 'believes', 'plans', 'projects', 'targets', 'aims', 'would', 'could', 'anticipates', 'expects', 'intends', 'may' or 'will' and include statements that the Company makes concerning the intended results of its strategy. The Company's actual results may differ materially from those predicted by the forward-looking statements. Subject to any obligations under the listing rules of the UK Financial Services Authority, the Company undertakes no obligation to update publicly or revise forward-looking statements, except as *required by law. Such statements are based on current expectations and are subject to* a *number of risks and uncertainties that could cause actual results or events to differ materially from those expressed or implied by the forward-looking statements.*

Micro Focus International plc
Balance sheet as at 30 April 2005

	2005
	$
Current assets	
Cash	2
Debtors	95,354
Net current assets	95,356
Total assets less current liabilities	95,356
Net assets	95,356
Capital and reserves	
Called up share capital	95,356
Equity shareholder's funds	95,356

Micro Focus International plc
Cash flow statement for the period ended 30 April 2005

	Period from 21 May 2004 to 30 April 2005
	$
Financing	
Issue of ordinary share capital	2
Net cash inflow from financing	2
Increase in net cash	2
Cash at 30 April 2005	2

Notes

1) The Company did not trade during the period from formation to 30 April 2005

2) Post balance sheet events

On 17 May 2005 (immediately prior to the IPO) the Company acquired the entire issued share capital of the Operating Company by way of 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, 51,069,602 new ordinary shares in the capital of the Company were issued to institutional investors in 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 market for listed securities. The 50,000 redeemable preference shares in issue immediately before the IPO were redeemed and then sub-divided and reclassified into ordinary shares of 10p each by the Company after the IPO.

Micro Focus International Limited

Consolidated profit and loss account for the year ended 30 April 2005

	Notes	2005 $'000	2004 $'000
Turnover		150,645	126,268
Cost of sales		(6,327)	(8,279)
Gross profit		144,318	117,989
Selling and distribution costs		(48,106)	(39,697)
Research and development		(23,407)	(22,350)
Amortisation of goodwill		(3,769)	(3,769)
Share-based compensation payments		(3,581)	(840)
Reorganisation costs		(2,302)	-
Other administrative expenses		(27,229)	(26,094)
Total administrative expenses		(36,881)	(30,703)
Operating profit		35,924	25,239
Net interest payable		(8,274)	(3,233)
Profit on ordinary activities before taxation		27,650	22,006
Tax on profit on ordinary activities		(10,101)	(7,771)
Profit for the financial year		17,549	14,235
Dividends		(78,800)	(28,450)
Accumulated loss for the financial year		(61,251)	(14,215)
Earnings per ordinary share			
-Basic	5	11.91c	9.78c
-Diluted		11.66c	9.49c

Micro Focus International Limited
Consolidated balance sheet as at 30 April 2005

	Notes	2005 $'000	2004 $'000
Fixed assets			
Intangible assets		38,635	42,404
Tangible assets		3,667	4,115
		42,302	46,519
Current assets			
Stock		350	312
Debtors		50,245	37,925
Deferred tax asset		3,722	5,998
Investments		8,313	7,166
Cash at bank and in hand		24,557	17,254
		87,187	68,655
Creditors – Amounts falling due within one year		(91,174)	(73,654)
Net current liabilities		(3,987)	(4,999)
Total assets less current liabilities		38,315	41,520
Creditors – Amounts falling due after more than one year		(110,298)	(55,517)
Net liabilities		(71,983)	(13,997)
Capital and reserves			
Called up share capital		-	1
Share premium account		3,376	2,946
Profit and loss reserve (deficit)		(75,190)	(17,062)
Other reserves		(169)	118
Total shareholders' deficit	3	(71,983)	(13,997)

Micro Focus International Limited
Consolidated cash flow statements for the year ended 30 April 2005

	Notes	2005 $'000	2004 $'000
Net cash inflow from operating activities	2	46,380	31,726
Returns on investments and servicing of finance			
Interest received		382	141
Interest paid		(5,274)	(3,160)
Issue costs of new bank loan		(2,959)	-
Interest element of finance lease payments		(19)	-
Net cash outflow from returns on investments and servicing of finance		(7,870)	(3,019)
Taxation		(2,368)	(2,417)
Capital expenditure and financial investment			
Purchase of tangible fixed assets		(1,360)	(1,207)
Proceeds on disposal of tangible fixed assets		23	-
Net cash outflow for capital expenditure and financial investment		(1,337)	(1,207)
Equity dividends paid to shareholders		(78,800)	(28,450)
Net cash outflow before use of liquid resources and financing		(43,995)	(3,367)
Management of liquid resources			
(Increase)/reduction in short-term deposits with banks		(1,147)	(6,440)
Net cash (outflow)/inflow from the management of liquid resources		(1,147)	(6,440)
Financing			
Issue of ordinary share capital		505	7
Capital element of finance lease payments		(42)	-
Increase in borrowings		50,500	15,550
Net cash inflow from financing		50,963	15,557
Increase in net cash		5,821	5,750

Notes

1) Basis For Preparation

The figures and financial information for the years ended 30 April 2005 and 2004 do not constitute the statutory financial statements. Financial statements for the year ended 30 April 2004 have been prepared and included the auditor's report, which was unqualified. Final statements for the year end 30 April 2005 are expected to be distributed during August 2005 and will be available from the registered office of the company.

The Company anticipates releasing yearly and half-yearly results as required under applicable regulations.

Copies of this announcement are available for the Company Secretary at the registered offices of the Company, which is, The Lawn, 22-30 Old Bath Road Newbury, RG14 1QN, Berkshire. The announcement was approved by the Board on 29 June 2005.

2) Cash flow from operating activities

Reconciliation of operating profit to net cash inflow from operating activities:

Continuing operations	2005 $'000	2004 $'000
Operating profit	**35,924**	25,239
Depreciation charge (net of loss on disposals)	**1,981**	1,849
Goodwill amortisation	**3,769**	3,769
Compensation share-option charge	**3,581**	840
(Increase) in stocks	**(38)**	(122)
(Increase) in debtors	**(12,320)**	(4,300)
Increase in creditors	**13,483**	4,451
Total net cash inflow from operating activities	**46,380**	31,726

3) Deficit on Reserves

The deficit on reserves has arisen from the payment of substantial dividends. Under Cayman law the unrealised profit on the revaluation of an asset may be used to find a dividend. As such the Directors obtained an independent valuation of the intellectual property held in the Operating Company and its subsidiaries, which confirmed the adequacy of distributable reserves under Cayman law.

4) Post balance sheet events

On 17 May 2005 (immediately prior to the IPO) the Company acquired the entire issued share capital of the Operating Company by way of 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 Company's ordinary shares were admitted to the Official List and to the London Stock Exchange to be traded on its market for listed securities.

On 20 May 2005 the outstanding debt of $110,625,000 owed by the Company to Wells Fargo Foothill, Inc. and DB Zwirn Special Opportunities Fund was repaid in full.

5) Earnings per share

The calculation of basic earnings per share has been based on the earnings attributable to ordinary shareholders of the Operating Company and the weighted average number of shares for each period. This is after taking account of the restructuring of the share capital of the Operating Company, which resulted in the previous shareholders of the Operating Company receiving three ordinary shares in the Company for every one ordinary share they previously held in the Operating Company.

The diluted earnings per share has been calculated after taking account of the share options.

6) Segmental reporting

The directors consider there to be only one class of business being the provision of legacy application development and deployment software for contemporary platforms. Therefore, only geographical information is given below.

Turnover

	2005 $'000	2004 $'000
Geographical analysis		
North America	**73,173**	61,357
Europe and the Middle East	**57,365**	47,537
Rest of the World	**20,107**	17,374
Total	**150,645**	126,268

There is no material difference between turnover by origin above and turnover by destination. All turnover is derived from external customers.

Profit on ordinary activities before taxation

	2005 $'000	2004 $'000
Geographical analysis		
North America	**22,532**	17,138
Europe and the Middle East	**3,838**	4,353
Rest of the World	**9,554**	3,748
	35,924	25,239
Net interest payable	**(8,274)**	(3,233)
Total	**27,650**	22,006

Net assets/(liabilities)

	2005 $'000	2004 $'000
Geographical analysis		
North America	(2,879)	(2,955)
Europe and the Middle East	1,368	5,352
Rest of the World	2,143	1,336
	632	3,733
Goodwill	38,635	42,404
	39,267	46,137
Bank loans	(111,250)	(60,134)
Net assets/(liabilities)	(71,983)	(13,997)