**25 June 2009**

# Micro Focus International plc
# Preliminary results for the full year to 30 April 2009

**Micro Focus reports strong revenue growth and record EBITDA margins, significantly expands addressable market through recent acquisition**

Micro Focus International plc ("Micro Focus", "the Company" or "the Group", LSE: MCRO.L) announces unaudited preliminary results for the year to 30 April 2009. All figures are in US$.

**Key highlights**

- Revenue up 20.4% to $274.7m (2008: $228.2m)
  - 10.1% organic revenue growth from the core business at constant currencies
- Adjusted EBITDA* up 34.0% to $118.6m (2008: $88.5m)**
  - 43.2% Adjusted EBITDA margin, up from 38.8% last year
- Adjusted operating profit* up 33.5% to $115.6m (2008: $86.6m)
- Adjusted profit before tax* up 30.8% to $115.9m (2008: $88.6m)
- Adjusted earnings per share* up 29.4% to 41.51 cents (2008: 32.08 cents)***
- Cash generated from continuing operations $105.0m (2008: $91.0m)
- Cash balance as at 30 April 2009 of $71.6m (30 April 2008: $92.4m)
- Final proposed dividend of 11.1 cents per share; total proposed dividend for the year up 20% to 15.6 cents per share (2008: 13.0 cents per share)
- Three acquisitions completed and integrated in the current year
- Further acquisition of the testing division of Compuware announced and completed post year end in May 2009

**Statutory results**

- Operating profit $91.2m (2008: $74.8m)
- Profit before tax $91.4m (2008: $76.8m)
- Basic earnings per share 32.87 cents (2008: 27.67 cents)***

* In assessing the performance of the business the directors use "Adjusted EBITDA", "Adjusted operating profit", "Adjusted profit before tax" and "Adjusted earnings per share", being the relevant statutory measures, prior to exceptional items, amortisation of purchased intangibles and share based compensation. Exceptional items, share based compensation and amortisation of purchased intangibles are detailed in note 7.
** Adjusted EBITDA is also used and is reconciled to operating profit in note 7.
*** Earnings per share and Adjusted earnings per share are detailed in note 8.

**Stephen Kelly, Chief Executive Officer of Micro Focus, commented:**

"Micro Focus has delivered another year of strong financial results against a difficult economic backdrop. The resilience of our business model, underpinned by our high proportion of predictable and recurring revenue, and the relevance of our customer proposition, have generated 20% revenue growth and record adjusted EBITDA margins. Double digit organic growth achieved in the core business was further enhanced by revenues from acquired companies.

In the year ahead, we will continue to pursue our successful stated growth strategy. However, the impact of the recent Compuware acquisition is expected to reduce the overall Group margin.

Micro Focus' resilience, relevance and strong cash generation gives the Board confidence in the Group's ability to continue to deliver superior total shareholder returns going forward."

**Enquiries**

press release

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**About Micro Focus**
Micro Focus, a member of the FTSE 250, provides innovative software that allows companies to dramatically improve the business value of their enterprise applications. Micro Focus Enterprise Application Modernization and Management software enables customers' business applications to respond rapidly to market changes and embrace modern architectures with reduced cost and risk. For additional information please visit www.microfocus.com.

## Chairman's statement

Micro Focus has delivered another year of strong financial results, achieving significant organic revenue growth and improving profit margins, in spite of tough economic conditions. Acquisitions also delivered positive results. We successfully integrated NetManage, Liant and Relativity, companies acquired in June 2008, July 2008 and December 2008 respectively. On 29 May 2009, we completed the acquisition of the Testing and Automated Software Quality business of Compuware.

Whist we remain conscious of the current challenging economic conditions, our long term ambition remains to achieve significant growth in revenue and profits through both organic and acquired means.

The performance achieved over the past year continues to reflect well on the entire Micro Focus team and highlights the strong fundamentals of the business. In turbulent markets, Micro Focus has become known as a technology safe haven with good growth credentials. We have first rate technology solutions, a loyal customer base and a leading position in a substantial, sustainable and growing market place. Market conditions for all companies are challenging but our revenue and EBITDA margin growth underlines the relevance of our customer proposition and the resilience of our business model.

The Board continues to adopt a progressive dividend policy reflecting the long-term earnings and cash flow potential of Micro Focus and I am pleased to announce a proposed final dividend of 11.1 cents per share, giving a full year dividend of 15.6 cents per share. This represents a 20% increase when compared to a full year dividend of 13.0 cents last year and reflects the Board's confidence in both the relevance of our solutions and the prospects of Micro Focus.

We finished the year with cash of $71.6m, and generated $105.0m of cash from continuing operations during the year. Our business model has low ongoing capital requirements and delivers strong cash generation. During the year, $78.6m of cash was used to fund the acquisitions and restructuring of NetManage, Liant and Relativity. This figure comprises the purchase cost of $92.1m, restructuring costs incurred of $14.9m less cash acquired of $28.4m.

Since the year end we have completed the acquisition of the Testing and Automated Software Quality ("ASQ") business of Compuware for gross consideration of $80m. In addition we have announced the proposed acquisition of Borland for a gross consideration of approximately $88m. To fund our acquisition and integration plans we have put in place a three year revolving credit facility of $215m provided through a syndicated loan consortium comprising Barclays, HSBC, Lloyds and RBS.

As we build our Company to address new growth opportunities, we have added a significant number of employees to the business and I am pleased with their rapid integration, and the strong contribution they are making.. The Board would like to thank all of our employees for their continued hard work and commitment throughout the year. We continue to build for the future.

We remain focused on profitable revenue growth and I am confident in the Company's ability to continue to deliver value to all of its stakeholders. Through both dividend and capital growth we aim to deliver superior total shareholder returns.

We look forward to the year ahead with confidence.

**Kevin Loosemore, Chairman**

## Chief Executive Officer's statement

Over the past year, Micro Focus has generated strong growth in both revenues and profits.

Organizations of all sizes are increasingly considering and selecting an application modernization strategy to reduce business costs, reduce risk and improve productivity and innovation. They are achieving required business benefits by modernizing existing IT applications, as opposed to implementing the lengthy, high risk and costly alternative of either rewriting these applications, or replacing them with a packaged solution with little additional business benefit. There is no other modernization player today that can offer the same level of experience and expertise to rapidly modernize and improve the functionality and cost effectiveness of business-critical enterprise applications.

Including the beneficial impacts of recent acquisitions, we now estimate our addressable market to be in excess of $4bn per annum. We have a significant opportunity ahead.

**Execution**

Over the past year, we delivered a strong set of financial results and made acquisitions to further our strategic aims. Whilst driving growth through acquisitions, we have also remained fully focused on driving organic growth. It was pleasing to see the core Micro Focus business continue to deliver double digit organic revenue growth in the year, despite tough economic conditions.

On 18 June 2008, we acquired NetManage for $73.4m in cash. On 11 July 2008, we acquired Liant Software Corporation for $4.9m in cash and on 31 December 2008, we acquired Relativity Technologies, for $10.3m in cash. All three acquisitions greatly strengthen our application modernization solutions. Since the year-end we completed the acquisition of Compuware's Testing/ASQ business and announced the proposed acquisition of Borland. The prospectus relating to the Borland transaction will be issued shortly.

All three acquisitions completed in the financial year have been integrated rapidly drawing on our track record to acquire and bring acquisitions quickly into our own business model, with minimal disruption to our operations. Margins at these operations are in line with levels at the rest of the Group for the period since acquisition. Combining the businesses of Micro Focus, NetManage, Liant and Relativity has further strengthened Micro Focus' position as a leading player in the fast growing Application Modernization market and provided the enlarged Group with further opportunities for growth through a more comprehensive and broader product offering.

We continue to invest in expanding our solution set as well as extending our partnerships with other technology companies, system integrators and outsourcers to take advantage of the considerable market opportunity in front of us. In particular, our deep relationships with Microsoft, IBM and HP/EDS support further enhancement of our extensive product and solution portfolio. An important current development focus is our Enterprise Application Management offerings to benefit organizations embracing cloud computing, to further improve cost efficiencies and productivity across their business operations.

**Corporate Developments**

During 2009, the management team has been strengthened further to support our growth strategy. We have appointed new regional Presidents in North America, Asia Pacific and International to further sharpen our focus on sales execution. In addition, we have appointed a President of our testing business to ensure dedicated focus in this area. All individuals are highly experienced in the software industry, and have all worked for international, high growth, successful companies.

The strengthened sales teams have driven continued improved performance in our North American operation as well as strong growth across our Europe and Rest of World operations. We have seen very strong growth in those markets where we have invested in direct operations to meet customer demand, for example in Spain, India and Latin America, where recent revenue growth has been particularly impressive.

Micro Focus has also continued to develop its marketing and communications strategies to increasingly establish senior level contacts within our target customer organizations. With well publicised ‘failures’ in package and rewrite IT projects, there is significant momentum building around the “modernization message” and we have benefited from this rush to common sense as boards demand rapid returns on investment**.**

**Summary and Outlook**

Micro Focus has demonstrated that it can grow and perform well on both sides of the economic cycle. The relevance of our customer proposition and the resilience of our business model continue to encourage us that the outlook is positive. In recessionary times Micro Focus provides companies with a low risk option that enables existing annual costs to be reduced. In improved economic times, Micro Focus allows companies to achieve a significant increase in capacity and innovation for a modest additional outlay.

Micro Focus benefits from having a business model with a high proportion of predictable and recurring revenue. Of licence revenues, which made up 47.6% of Group revenues in the year, the majority comes from high volume, low value transactions which are supplemented by larger value transactions, the size and volume of which we continue to see grow. Approximately a quarter of licence revenues come from royalties from other software companies, which again consist of a high volume of lower value transactions.

Our resilient maintenance revenue streams continue to represent nearly half our total revenue, at 48.2%. This line of business experiences low levels of churn, and we continue to enjoy renewal rates of approximately 90%. Maintenance revenue growth is driven by the retention of existing customers as well as the addition of new maintenance revenue associated with the sale of new licences. An encouraging performance in both of these areas in the year provides high levels of revenue visibility going forward.

The smallest proportion of our revenue is derived from our consultancy services and it is expected that this revenue will remain a similar proportion of total revenue in the coming year.

Continued future revenue growth is largely dependent on driving licence sales. Our major growth opportunity remains around larger value licence fee transactions into the Global 2000 (“G2000”) companies. It was encouraging that we again signed a number of these transactions in the year carrying on from our success last year. These larger value transactions in turn drive future growth of our run rate high volume and low value business, typically through deployment revenues as modernized applications are rolled out across organizations. Our pipeline of opportunity remains strong and contains a number of such prospective new licence opportunities.

Our solutions reduce cost, lower risk, and provide clear and compelling returns on investment for our customers. Whilst we recognise the continuing uncertain macro economic conditions, the defensive characteristics of our business model, combined with the relevance and compelling nature of our solutions, lead us to view the current year with confidence.

In the year ahead, we will continue to pursue our successful stated growth strategy. However, the impact of the recent Compuware acquisition is expected to reduce the overall Group margin.

Micro Focus' resilience, relevance and strong cash generation gives the Board confidence in the Group's ability to continue to deliver superior total shareholder returns going forward.

**Stephen Kelly, Chief Executive Officer**

## Chief Financial Officer's review

Revenue for the year increased by 20.4% to $274.7m, adjusted operating profit increased by 33.5% to $115.6m, adjusted profit before tax increased by 30.8% to $115.9m and adjusted earnings per share increased by 29.4% to 41.51 cents per share.

In the report below we have provided detail of total revenue at actual exchange rates by both geography and revenue category. In addition, to facilitate comparison on a like-for-like basis we have also shown the impact of exchange rate movements on revenue and the impact of acquisitions. Acquisitions before 1 April 2008 include HAL Knowledge Solutions and Acucorp and after 1 May 2008, NetManage, Liant and Relativity.

All areas showed solid improvement driven by both organic growth and the impact of acquisitions. Revenue by geographic region at actual reported $ was as follows:

| | **2009** | | 2008 | |
|---|---|---|---|---|
| | **$m** | **%** | $m | % |
| North America | **124.0** | **45.1** | 96.5 | 42.3 |
| Europe and the Middle East | **113.1** | **41.2** | 96.0 | 42.1 |
| Rest of the World | **37.6** | **13.7** | 35.7 | 15.6 |
| Total revenue | **274.7** | **100.0** | 228.2 | 100.0 |

Excluding the impact of exchange rate movements on revenue and the impact of current and prior year acquisitions, all geographic regions achieved solid organic growth as shown in the table below. The core Micro Focus organic revenue growth at constant currency was 10.1%.

Revenues from acquisitions added $57.2m of revenue in the year. $25.5m was generated from acquisitions completed in prior years and $31.7m from current year acquisitions.

We have been encouraged by the growth in new direct territories including Spain, India and Central and Eastern Europe, which assisted in helping our Europe and the Middle East geography increase by 13.7%.

| | **2009** | 2008 | Growth |
|---|---|---|---|
| | **$m** | $m | % |
| North America | **92.2** | 85.5 | 7.8 |
| Europe and the Middle East | **89.8** | 79.0 | 13.7 |
| Rest of the World | **35.5** | 33.0 | 7.6 |
| Core Micro Focus | **217.5** | 197.5 | 10.1 |
| Acquisitions before 30 April 2008 | **25.5** | 25.4 | |
| | **243.0** | 222.9 | |
| Acquisitions after 1 May 2008 | **31.7** | - | |
| Total revenue growth pre currency impact | **274.7** | 222.9 | 23.3 |
| Currency | **-** | 5.3 | |
| Total reported revenue | **274.7** | 228.2 | 20.4 |

The leadership and execution capability of the "go to market" team has been continually strengthened. The number of direct quota carrying sales executives has increased by 50%.

Revenue for the year by category at actual reported $ was as follows:

| | **2009** | | 2008 | |
|---|---|---|---|---|
| | **$m** | **%** | $m | % |
| Licence fees | **130.8** | **47.6** | 113.3 | 49.6 |
| Maintenance fees | **132.3** | **48.2** | 104.2 | 45.7 |
| Consultancy fees | **11.6** | **4.2** | 10.7 | 4.7 |
| Total revenue | **274.7** | **100.0** | 228.2 | 100.0 |

As detailed below, licence and maintenance growth in the core Micro Focus business was 9.7% and 11.9% respectively. Consulting revenues reduced by c.5%.

| | **2009** | 2008 | Growth |
|---|---|---|---|
| | **$m** | $m | % |
| Licence | **108.6** | 99.0 | 9.7 |
| Maintenance | **101.5** | 90.7 | 11.9 |
| Consulting | **7.4** | 7.8 | (5.1) |
| Core Micro Focus | **217.5** | 197.5 | 10.1 |
| Acquisitions before 30 April 2008 | **25.5** | 25.4 | |
| | **243.0** | 222.9 | |
| Acquisitions after 1 May 2008 | **31.7** | - | |
| Total revenue growth pre currency impact | **274.7** | 222.9 | 23.3 |
| Currency | **-** | 5.3 | |
| Total reported revenue | **274.7** | 228.2 | 20.4 |

Organic licence fee revenue growth from the core business at constant currency was driven by our low value, high volume run rate business combined with improved sales of larger value transactions to enterprise customers. We define larger value transactions as those in excess of $0.5m. It is encouraging to see both the number and average value of these larger value transactions increasing year on year.

Organic maintenance revenue growth from the core business at constant currency was 11.9% reflecting the impact of solid licence fee sales combined with inflationary price increases and an improvement in the renewal rate as compared to the prior period.

Organic consulting revenue growth at constant currency showed a small decline against the prior year although the growth rate improved in the second half year as compared to the first half year.

The acquisitions made in the year comprising, NetManage, Liant and Relativity added $31.7m of revenues in the year. Approximately 60% of revenues added were from predictable and secure maintenance.

**Costs**

All comments below relate to costs at actual reported $.

Cost of sales for the year fell by 1% to $22.4m. The costs in this category predominantly relate to our consulting and helpline support operations.

Selling and distribution costs increased by 23.6% to $78.1m. We continue to make significant investments in the sales and marketing functions to support growth and will continue to do so. This cost category represents approximately 27% of revenue and is expected to remain at a similar percentage of revenue for the year ahead.

Research and development expenses increased by 15.7% to $34.1m. We expect to maintain this cost category at a similar percentage of total revenue as we continue to enhance and expand our solution set to take advantage of the considerable market opportunity.

Excluding restructuring charges of $14.9m (2008: $6.5m), administrative expenses increased by 7.5% to $34.0m. The increase in costs includes costs of the acquired businesses as well as expanding the Group's support functions to facilitate current and future growth. We continue to leverage our back office function to drive margin improvements as we expand the Group.

**Currency Impact**

An analysis of both revenue and costs as a percentage of the total by $ and other currencies is shown below. As the Euro and Sterling have weakened against the $ our revenues have been negatively impacted by exchange rate movements as compared to the prior year. However, with a higher percentage of costs in non $ denominated currencies than revenues, our expenses have decreased proportionately faster than revenues. As a result, adjusted operating profit as reported in $ was not materially different pre or post currency adjustments.

| | Revenue analysis by major currency % | Cost analysis by major currency % |
|---|---|---|
| US$ | 51.4 | 32.5 |
| Other | 48.6 | 67.5 |
| Total revenue | 100.0 | 100.0 |

**Operating profit**

Operating profit for the year was $91.2m (2008: $74.8m). Adjusted operating profit increased by 34% to $115.6m (2008: $86.6m), the improvement being driven by increased revenue and an improvement in margins.

**Adjusted EBITDA**

Adjusted EBITDA increased by 34% to $118.6m (2008: $88.5m) as a result of increased revenue and tightly controlled costs.

**Net finance income**

Net finance income was significantly lower than for the previous year at $0.2m (2008: $2.0m) due to lower average cash balances and lower interest rates. Cash balances were reduced by $74.8m as a result of the purchases of NetManage, Liant and Relativity and associated restructuring charges. We also incurred facility fees of $0.7m on the unused bank facility.

**Taxation**

Tax for the year was $25.4m (2008: $21.4m) based on increased profits. The Group's effective tax rate is 27.8% (2008: 27.9%). Our medium term effective tax rate is expected to be maintained at approximately 28%.

**Profit after tax**

Profit after tax increased by 19% to $66.0m (2008: $55.4m), similar to the growth in revenues.

**Cash flow**

At 30 April 2009, the Company's cash balance was $71.6m (2008: $92.4m). The Group generated a net cash inflow from continuing operating activities of $105.0m which was offset by outflows of $78.6m in respect of the acquisition and restructuring of NetManage, Liant and Relativity as well as corporation tax payments of $20.0m and dividends of $26.1m.

**Dividend**

The Board continues to adopt a progressive dividend policy reflecting the long-term earnings and cash flow potential of Micro Focus with a level of dividend cover for the financial year ending 30 April 2009 of approximately 2.5 times on a pre-exceptional earnings basis. In line with the above policy, the directors recommend payment of a final dividend in respect of the full year to 30 April 2009 of 11.1 cents per share providing for total dividends in the year of 15.6 cents per share, an increase of 20% above the total dividends of 13.0 cents per share for the full year to 30 April 2008. The dividend will be paid on 28 September 2009 to shareholders on the register on 4 September 2009. The directors of Micro Focus International plc have concluded that the Company has sufficient reserves to enable the payment of the final dividend.

Dividends will be paid in sterling based on an exchange rate of £ = $1.65, equivalent to 6.73 pence per share, being the rate applicable on 24 June 2009, the date of recommendation of the dividend by the Board.

**Acquisitions made in the year**

During the year, we made three acquisitions, Netmanage in June, Liant in July and Relativity in December. These three acquisitions added $31.7m of revenues to the current year results at a margin broadly similar to that of the total group. Revenues for the year ahead are expected to increase in regard to these acquisitions as we see the benefit of a full twelve months of results.

**Acquisitions made post period end**

On 6 May 2009, we announced the proposed acquisition of Borland, Inc for approximately $75m. On 18 June we increased our offer to approximately $88m. Subject to approval by the shareholders of Micro Focus and Borland shareholders the acquisition is expected to close towards the end of July 2009.

On 29 May 2009, we closed the acquisition of Compuware's Testing and ASQ business. The gross purchase price being $80m.

To finance these acquisitions, we have arranged a three year revolving credit facility of $215m through a syndicated loan consortium comprising Barclays, HSBC, Lloyds and RBS. This facility together with the Group's existing cash balances will be used to fund the completed acquisition of Compuware's Testing/ASQ business and the proposed acquisition of Borland, Inc and subsequent integration activities.

**Nick Bray, Chief Financial Officer**

## CONSOLIDATED INCOME STATEMENT (unaudited)
## For the year ended 30 April 2009

| | Notes | **2009 (unaudited) $'000** | 2008 (audited) $'000 |
|---|---|---|---|
| **Revenue** | 4,5 | **274,731** | 228,196 |
| Cost of sales | | **(22,377)** | (22,582) |
| **Gross profit** | | **252,354** | 205,614 |
| Selling and distribution costs | | **(78,128)** | (63,233) |
| Research and development expense | | **(34,127)** | (29,484) |
| Administrative expenses | | **(48,888)** | (38,105) |
| **Operating profit** | | **91,211** | 74,792 |
| **Analysed as:** | | | |
| **Operating profit before exceptional items** | | **106,118** | 81,294 |
| Exceptional items | 6 | **(14,907)** | (6,502) |
| **Operating profit** | 4,7 | **91,211** | 74,792 |
| Finance costs | | **(756)** | (12) |
| Finance income | | **994** | 2,043 |
| **Profit before tax** | | **91,449** | 76,823 |
| Taxation | | **(25,419)** | (21,404) |
| **Profit after tax** | | **66,030** | 55,419 |
| Earnings per share expressed in cents per share | | | |
| — basic | 8 | **32.87** | 27.67 |
| — diluted | 8 | **31.92** | 26.97 |
| Earnings per share expressed in pence per share | | | |
| — basic | 8 | **19.93** | 13.79 |
| — diluted | 8 | **19.36** | 13.44 |

The accompanying notes are an integral part of these consolidated financial statements

## CONSOLIDATED BALANCE SHEET (unaudited)
## As at 30 April 2009

| | Notes | 2009 (unaudited) $'000 | 2008 (audited) $'000 |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Goodwill | | **119,813** | 65,784 |
| Other intangible assets | | **66,349** | 35,282 |
| Property, plant and equipment | | **5,112** | 4,359 |
| Deferred tax assets | | **17,625** | 15,577 |
| | | **208,899** | 121,002 |
| **Current assets** | | | |
| Inventories | | **128** | 192 |
| Trade and other receivables | 10 | **67,089** | 59,205 |
| Cash and cash equivalents | | **71,569** | 92,405 |
| | | **138,786** | 151,802 |
| **Total assets** | | **347,685** | 272,804 |
| **LIABILITIES** | | | |
| **Current liabilities** | | | |
| Trade and other payables | 11 | **121,120** | 103,859 |
| Current tax liabilities | | **22,187** | 19,245 |
| | | **143,307** | 123,104 |
| **Non-current liabilities** | | | |
| Non-current deferred income | | **7,085** | 6,518 |
| Deferred tax liabilities | | **28,565** | 16,660 |
| | | **35,650** | 23,178 |
| **Net assets** | | **168,728** | 126,522 |
| **EQUITY** | | | |
| Share capital | | **37,092** | 36,837 |
| Share premium | | **106,200** | 103,904 |
| Profit and loss reserve | | **56,870** | 12,679 |
| Foreign currency translation deficit (reserve) | | **(4,349)** | 187 |
| Other reserves (deficit) | | **(27,085)** | (27,085) |
| **Total equity** | | **168,728** | 126,522 |

The accompanying notes are an integral part of these consolidated financial statements

## CONSOLIDATED STATEMENT OF CASH FLOWS (unaudited)
## For the year ended 30 April 2009

| | Notes | **2009 (unaudited) $'000** | 2008 (audited) $'000 |
|---|---|---|---|
| **Cash flow from operating activities** | | | |
| Net profit | | **66,030** | 55,419 |
| Adjustments for | | | |
| Net interest | | **(238)** | (2,031) |
| Taxation | | **25,419** | 21,404 |
| Depreciation | | **1,910** | 1,603 |
| Loss on disposal of property, plant and equipment | | **418** | 9 |
| Loss on disposal of intangible asset | | **7** | - |
| Amortisation of intangibles | | **13,729** | 9,590 |
| Share-based compensation | | **2,407** | 1,337 |
| Exchange movements | | **3,444** | (5,213) |
| Changes in working capital: | | | |
| Inventories | | **64** | 118 |
| Trade and other receivables | | **1,567** | (9,469) |
| Payables and other non-current liabilities | | **(9,726)** | 18,208 |
| **Cash generated from continuing operations** | | **105,031** | 90,975 |
| Interest received | | **994** | 2,051 |
| Interest paid | | **(756)** | (12) |
| Tax paid | | **(19,991)** | (18,193) |
| **Net cash from operating activities** | | **85,278** | 74,821 |
| **Cash flows from investing activities** | | | |
| Payments for intangible assets | | **(8,609)** | (6,272) |
| Purchase of tangible fixed assets | | **(2,650)** | (3,183) |
| Acquisition of subsidiaries | 12 | **(92,111)** | (41,576) |
| Disposal of tangible fixed assets | | **18** | - |
| Net cash acquired with subsidiaries | 12 | **28,444** | 678 |
| **Net cash used in investing activities** | | **(74,908)** | (50,353) |
| **Cash flows from financing activities** | | | |
| Proceeds from issue of ordinary share capital | | **1,517** | 71 |
| Repayment of borrowings | | **-** | (113) |
| Dividends paid to shareholders | **9** | **(26,076)** | (21,229) |
| **Net cash used in financing activities** | | **(24,559)** | (21,271) |
| Effects of exchange rate changes | | **(6,647)** | 4,237 |
| **Net increase in cash and cash equivalents** | | **(20,836)** | 7,434 |
| Cash and cash equivalents at 1 May 2008 | | **92,405** | 84,971 |
| **Cash and cash equivalents at 30 April 2009** | | **71,569** | 92,405 |

The accompanying notes are an integral part of these consolidated financial statements

## CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY (unaudited)
## For the year ended 30 April 2009

| | Share capital $'000 | Share premium $'000 | Foreign currency translation reserve (deficit) $'000 | Other reserves (deficit) $'000 | Profit and loss reserve (deficit) $'000 | Total $'000 |
|---|---|---|---|---|---|---|
| Balance as at 1 May 2007 | 36,767 | 104,054 | 1,163 | (27,085) | (23,394) | 91,505 |
| Currency translation differences | - | - | (976) | - | - | (976) |
| Profit for the year | - | - | - | - | 55,419 | 55,419 |
| Dividends | - | - | - | - | (21,229) | (21,229) |
| Issue of share capital | 70 | - | - | - | - | 70 |
| Movement in relation to share options | - | (150) | - | - | 1,487 | 1,337 |
| Deferred tax on share options | - | - | - | - | 396 | 396 |
| **Balance as at 30 April 2008** | **36,837** | **103,904** | **187** | **(27,085)** | **12,679** | **126,522** |
| Currency translation differences | - | - | (4,536) | - | - | (4,536) |
| Profit for the year | - | - | - | - | 66,030 | 66,030 |
| Dividends | | | | | (26,077) | (26,077) |
| Issue of share capital | 255 | 2,296 | - | - | (1,034) | 1,517 |
| Movement in relation to share options | - | - | - | - | 2,407 | 2,407 |
| Deferred tax on share options | - | - | - | - | 2,865 | 2,865 |
| **Balance as at 30 April 2009** | **37,092** | **106,200** | **(4,349)** | **(27,085)** | **56,870** | **168,728** |

The accompanying notes are an integral part of these consolidated financial statements

## 1. Basis of preparation

This unaudited preliminary consolidated financial information for the year ended 30 April 2009, has been prepared in accordance with the Disclosure and Transparency Rules of the UK Financial Services Authority and International Financial Reporting Standards ("IFRS") as endorsed by the European Union.

The consolidated financial statements have been prepared under the historical cost convention, modified by share options measured at fair value through the income statement.

This preliminary announcement was approved by the Board of Directors on 24 June 2009. The financial information in this announcement does not constitute the statutory accounts of Micro Focus International plc ("the Company") within the meaning of section 240 of the Act.

The statutory accounts of the Company for the year ended 30 April 2009, which include the Group's consolidated financial statements for that year, were unaudited at the date of this announcement. The auditor's report on those accounts is expected to be signed following approval by the Board of Directors on 23 July 2009 and subsequently delivered to the Register of Companies after the Annual General Meeting on 24 September 2009. The statutory accounts for the year ended 30 April 2008, which were prepared under IFRS, have been filed with the Register of Companies. The auditor's report on those accounts was unqualified and did not contain a statement under section 237(2) and 237(3) of the Act.

## 2. Accounting policies

The accounting policies adopted are consistent with those of the annual financial statements for the year ended 30 April 2008, as described in those financial statements.

**Adoption of new and revised International Financial Reporting Standards**

The following new standards, amendments to standards or interpretations were issued but not yet mandatory for the Group for the financial year ending 30 April 2009 and early adoption has not been applied:

**International Financial Reporting Interpretations Committee ("IFRIC")**

- IFRIC 13, "Customer Loyalty Programmes" - 1 July 2008
- IFRIC 14, "IAS19 – The Limit of a Defined Benefit Asset, Minimum Funding Requirements and their Interaction" - 1 January 2009
- IFRIC 15, "Agreements for construction of real estates" – 1 January 2009
- IFRIC 16, "Hedges of a net investment in a foreign operation" – 1 October 2008
- IFRIC 17, "Distribution of non-cash assets to owners"– 1 July 2009
- IFRIC 18, "Transfer of assets from customers" – 1 July 2009

**International Financial Reporting Standards ("IFRSs")**

- IFRS 8, "Operating segments" - 1 January 2009
- IFRS 3 (revised), "Business Combinations" – 1 July 2009

**Amendments to existing standards**

- Amendment to IAS 1, "Presentation of Financial Statements: A Revised Presentation" - 1 January 2009.
- Amendment to IAS 16, "Property, plant and equipment" - 1 January 2009
- Amendment to IAS 19, "Employee benefits" - 1 January 2009
- Amendment to IAS 20, "Accounting for government grants and disclosure of government assistance" - 1 January 2009
- Amendment to IAS 23, "Borrowing Costs" - 1 January 2009


NOTES TO THE FINANCIAL STATEMENTS (unaudited)
For the year ended 30 April 2009

**2. Accounting Policies (continued)**

- Amendment to IAS 27, "Consolidated and Separate Financial Statements" – 1 January 2009
- Amendment to IAS 28, "Investments in associates" - 1 January 2009
- Amendment to IAS 32, "Financial Instruments: Presentation" and IAS 1 "Presentation of Financial Statements: Puttable Financial Instruments and Obligations Arising on Liquidation" – 1 January 2009
- Amendment to IAS 36, "Impairment of assets" - 1 January 2009
- Amendment to IAS 38, "Intangible assets" - 1 January 2009
- Amendment to IAS 39, "Financial instruments: Recognition and Measurement" – 1 July 2008
- Amendment to IAS 39, "Financial instruments: Recognition and Measurement on eligible hedged items" – 1 July 2009
- Amendment to IFRS 1, "First time of adoption of IFRS" – 1 July 2009
- Amendment to IFRS 2, "Share-based Payment: Vesting Conditions and Cancellations" – 1 January 2009
- Amendment to IFRS 5, "Non-current assets held for sale and discontinued operations" – 1 January 2009
- Amendment to IFRS 7, "Financial Instruments: Disclosures on the reclassification of financial assets" – 1 July 2008

All the IFRSs, IFRIC interpretations and amendments to existing standards are yet to be endorsed by the EU with the exception of IFRIC13, IFRIC 16, IFRS 8, IFRS 3 (revised) and the amendments to IAS 1, IAS 16, IAS 20, IAS 23, IAS 27, IAS 32 and IFRS 2. The implementation date for the above will be the annual period beginning on or after the date shown.

The directors anticipate that the future adoption of these standards, interpretations and amendments listed above will not have a material impact on the consolidated financial statements.

## 3. Functional currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in US Dollars, which is the Company's functional currency.

## NOTES TO THE FINANCIAL STATEMENTS (unaudited)

**For the year ended 30 April 2009**

## 4. Segmental information

| Geographical analysis | Revenue | | Profit | |
|---|---|---|---|---|
| | **2009 $'000** | 2008 $'000 | **2009 $'000** | 2008 $'000 |
| North America | **124,034** | 96,482 | **9,243** | 9,290 |
| Europe and the Middle East | **113,122** | 96,018 | **80,838** | 64,746 |
| Rest of the world | **37,575** | 35,696 | **1,130** | 756 |
| **Revenue and operating profit** | **274,731** | 228,196 | **91,211** | 74,792 |
| Finance income – net | | | **238** | 2,031 |
| Profit before tax | | | **91,449** | 76,823 |
| Taxation | | | **(25,419)** | (21,404) |
| **Profit after tax** | | | **66,030** | 55,419 |

The Group is organised on a worldwide basis into three main geographical segments as above. There is no material difference between revenue by origin above and revenue by destination.

The Group considers there is only one business segment being the provision of enterprise management and modernisation solutions.

## 5. Supplemental information

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

| Revenue | **2009 $'000** | 2008 $'000 |
|---|---|---|
| Licence | **130,774** | 113,314 |
| Maintenance | **132,334** | 104,144 |
| Consultancy | **11,623** | 10,738 |
| **Total** | **274,731** | 228,196 |

## 6. Exceptional items

| | **2009 $'000** | 2008 $'000 |
|---|---|---|
| Reorganisation costs | **14,907** | 6,502 |

Current year reorganisation costs relate to restructuring programmes carried out in Europe and the USA resulting from the acquisitions made in the year. The prior year reorganisation costs related to restructuring programmes carried out in Europe and the USA resulting from the acquisition of Acucorp, Inc. All exceptional items relate to administrative expenses.

## 7. Reconciliation of operating profit to EBITDA

| | 2009 $'000 | 2008 $'000 |
|---|---|---|
| **Operating profit** | **91,211** | 74,792 |
| Exceptional items – reorganisation costs | **14,907** | 6,502 |
| Share-based compensation charge | **2,407** | 1,337 |
| Amortisation of purchased intangibles | **7,123** | 3,946 |
| **Adjusted operating profit** | **115,648** | 86,577 |
| Depreciation | **1,910** | 1,603 |
| Amortisation of software | **1,037** | 337 |
| **Adjusted EBITDA** | **118,595** | 88,517 |
| | | |
| **EBITDA** | **101,281** | 80,678 |
| Exceptional items – reorganisation costs | **14,907** | 6,502 |
| Share-based compensation charge | **2,407** | 1,337 |
| **Adjusted EBITDA** | **118,595** | 88,517 |

The directors use EBITDA and EBITDA before exceptional items and share-based compensation ("Adjusted EBITDA") as key performance measures of the business.

## 8. Earnings per share

The calculation of basic earnings per share has been based on the earnings attributable to ordinary shareholders of the Company and the weighted average number of shares for each period.

| | **Year ended 30 April 2009** | | | Year ended 30 April 2008 | | |
|---|---|---|---|---|---|---|
| | **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** | | | | | | |
| Earning attributable to ordinary shareholders | **66,030** | **200,905** | **32.87** | 55,419 | 200,268 | 27.67 |
| **Effect of dilutive securities** | | | | | | |
| Options | | **5,940** | | | 5,216 | |
| **Diluted EPS** | | | | | | |
| Earning attributable to ordinary shareholders | **66,030** | **206,845** | **31.92** | 55,419 | 205,484 | 26.97 |
| Supplementary EPS to exclude exceptional Items | | | | | | |
| **Basic EPS** | **66,030** | **200,905** | **32.87** | 55,419 | 200,268 | 27.67 |
| Adjusted items * | **24,437** | | | 11,785 | | |
| Tax relating to above items | **(7,069)** | | | (2,954) | | |
| **Basic EPS - adjusted** | **83,398** | **200,905** | **41.51** | 64,250 | 200,268 | 32.08 |
| Diluted EPS | **66,030** | **206,845** | **31.92** | 55,419 | 205,484 | 26.97 |
| Adjusted items * | **24,437** | | | 11,785 | | |
| Tax relating to above items | **(7,069)** | | | (2,954) | | |
| **Diluted EPS - adjusted** | **83,398** | **206,845** | **40.32** | 64,250 | 205,484 | 31.27 |

## 8. Earnings per share (continued)

* Adjusted items comprise amortisation of acquired intangibles, share based compensation and exceptional costs.

Earnings per share expressed in pence has used the exchange rate of $1.65 to £1 (2008: $2.01 to £1).

## 9. Dividends

| | **2009 $'000** | 2008 $'000 |
|---|---|---|
| **Equity – ordinary** | | |
| 2008 final paid 9.4 cents (2007: 7 cents) per ordinary share | **17,592** | 14,016 |
| 2009 interim paid 4.5 cents (2008: 3.6 cents) per ordinary share | **8,485** | 7,213 |
| **Total** | **26,077** | 21,229 |

The directors are proposing a final dividend in respect of the year ended 30 April 2009 of 11.1 cents per share which will utilise $22.4 m of shareholders' funds. The directors have concluded that the Company has sufficient reserves to pay the dividend. It has not been included as a liability in these financial statements.

## 10. Trade and other receivables

| | **2009 $'000** | 2008 $'000 |
|---|---|---|
| Trade receivables | **61,679** | 51,459 |
| Prepayments | **4,514** | 3,659 |
| Accrued income | **896** | 4,087 |
| **Total** | **67,089** | 59,205 |

## 11. Trade and other payables

| | **2009 $'000** | 2008 $'000 |
|---|---|---|
| Trade payables | **4,477** | 4,964 |
| Other tax and social security payable | **3,876** | 4,477 |
| Accruals | **33,403** | 26,053 |
| Deferred income | **79,364** | 68,365 |
| **Total** | **121,120** | 103,859 |

## 12. Business combinations

The following acquisitions, each of the entire share capital of the relevant company, were made in the year:

- NetManage, Inc was acquired on 17 June 2008 for a cash consideration of $76.2 m (including costs). The fair value of assets acquired was $39.5 m resulting in goodwill of $36.7 m.
- Liant Software Corporation was acquired on 11 July 2008 for a cash consideration of $5.1 m (including costs). The fair value of liabilities acquired was $0.1 m resulting in goodwill of $5.2m.
- Relativity Technologies Inc was acquired on 31 December 2008 for a cash consideration of $10.8 m (including costs). The fair value of assets acquired was $1.0m resulting in goodwill of $9.8 m.

## 12. Business combinations (continued)

Details of the net assets acquired and goodwill are as follows:

| | Carrying value at acquisition $'000 | Fair value $'000 |
|---|---|---|
| Intangible fixed assets | 4,182 | **35,767** |
| Property, plant and equipment | 1,518 | **1,518** |
| Trade and other receivables | 9,267 | **9,451** |
| Cash and cash equivalents | 28,444 | **28,444** |
| Taxation | (342) | **(342)** |
| Trade and other payables | (13,164) | **(16,123)** |
| Deferred income | (11,431) | **(11,431)** |
| Deferred tax liability | - | **(6,859)** |
| Net assets | 18,474 | **40,425** |
| Goodwill | | **51,686** |
| Consideration | | **92,111** |
| Consideration satisfied by: | | |
| Cash paid | | **92,111** |

Outflow of cash to acquire the businesses, net of cash acquired:

| | $'000 |
|---|---|
| Cash consideration | **88,632** |
| Acquisition costs | **3,479** |
| Cash acquired | **(28,444)** |
| **Total** | **63,667** |

The intangible assets acquired as part of the acquisition can be analysed as follows:

| | $'000 |
|---|---|
| Software | **14,654** |
| Customer relationships | **21,113** |
| **Total** | **35,767** |

The value of goodwill includes anticipated synergies expected to result from the integration of the acquisitions into existing businesses and non-identified intangible assets which do not meet the separable and reliably measurable criteria including business processes, know-how and work force related industry specific knowledge and technical skills.

**Contribution of acquisitions**

The acquired businesses contributed the following revenues to the Group for the period from date of acquisition to 30 April 2009.

| | $'000 |
|---|---|
| NetManage, Inc | **24,700** |
| Liant Software Corporation | **4,100** |
| Relativity Technologies Inc | **2,900** |
| **Total** | **31,700** |

## 12. Business combinations (continued)

If the companies had been acquired as at 1 May 2008, they would have contributed the following to the Group's revenues.

| | $'000 |
|---|---|
| NetManage, Inc | **27,900** |
| Liant Software Corporation | **5,600** |
| Relativity Technologies Inc | **9,800** |
| **Total** | **43,300** |

The acquired companies operations have been restructured and largely integrated into existing Micro Focus businesses and therefore it is not practicable to ascertain the profits of these businesses for the period from date of acquisition to 30 April 2009.

**Analysis of outflow of cash in respect of acquisitions**
The outflow of cash and cash equivalents on the acquisitions is as follows:

| | $'000 |
|---|---|
| NetManage, Inc | **76,240** |
| Liant Software Corporation | **5,018** |
| Relativity Technologies Inc | **10,853** |
| **Net cash outflow** | **92,111** |

**Other**
During the year to 30 April 2009, adjustments were made in respect of goodwill on a prior year acquisition of $2.4m due to changes in the tax rates at which the deferred tax liabilities in respect of the intangible assets recognised will unwind.

## 13. Post balance sheet events

### A. Acquisition of Borland Software Corporation

The Company announced on 6 May 2009, that it had reached agreement on a recommended cash offer of $1.00 per share for the entire issued and to be issued share capital of Borland Software Corporation, Inc. ("Borland"), the NASDAQ-listed software provider. On 18 June 2009, the Company announced that the offer had been increased to $1.15 per share.

The price represents a premium of approximately 44% over the closing price of $0.80 per Borland share at the close of business on 5 May 2009, which was the last day of trading prior to the announcement. The offer values the existing issued share capital of Borland at approximately $88.0 m including the value of all outstanding options.

### B. Acquisition of Compuware Testing and ASQ Business

The Company announced on 6 May 2009, that it had reached agreement to acquire the suite of Application Testing/Automated Software Quality ("ASQ") solutions and all related sales, support and development infrastructure (together being the Compuware Testing and ASQ Business) from Compuware Corporation for a total gross cash consideration of $80.0m. The transaction was completed on 29 May 2009.

In accordance with IFRS 3, the directors will assess the fair value of the net assets acquired as further information becomes available.

### C. Bank facilities

The Company has arranged a three year revolving credit facility of $215 m provided through a syndicated loan consortium comprising Barclays Bank PLC, HSBC Bank plc, Lloyds TSB Bank plc and Royal Bank of Scotland plc. This facility together with the Group's existing cash balances will be used to fund the acquisition of the Compuware Testing and ASQ business and the potential acquisition of Borland Software Corporation as noted above.